

City of Falls Church – Affordable Housing Study

Report for the Housing and Human Services Division

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Report for the Housing and Human Services Division, City of Falls Church

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Executive Summary

Overview and Project Objectives

Although the recent regional economic upswing and real estate development boom has benefited many of the residents of the City of Falls Church and the surrounding region, many low and moderate income households discover themselves being priced out of the region's rental and owner-occupied housing market. Low- and moderate-income households are defined based on 50%-80% of HUD 2006 Area Median Income (AMI), or \$45,150 to \$72,340 annually.

Though the region has experienced a recently much-publicized slowdown in the for-sale residential market, sales prices are not plummeting. Inventory of for-sale condominiums has risen but sales prices have stabilized. Given current absorption trends, the market's excess inventory should be absorbed within 12 to 16 months. Combined with long-term employment and income growth projections, the region's housing demand shall continue to grow – thereby continuing to pressure housing affordability. Though the immediacy of a housing crisis has lessened, the long-term risk factors persist.

In this context, the City brought Jones Lang LaSalle on as an advisor to research and develop recommendations in each of the areas below.

- Evaluation the effectiveness of the City of Falls Church Affordable Housing Ordinance
- Perform appraisals of the four at-risk properties identified in the Housing Needs Report of 2005 as Merrill House, Lee Square, Virginia Village, and Broadfalls Apartments.
- Develop conceptual redevelopment plans for each of the at-risk properties
- Evaluate the application of public-private joint ventures and the Public Private Education Facilities and Infrastructure Act (PPEA) of 2002.
- Recommend the most effective approaches to utilize \$2 million dollars to provide leverage for the redevelopment of each of the four at-risk properties

A summary of recommendations in each of the areas above follows, with details of the analysis presented in latter sections of the report.

Recommendations

Affordable Housing Ordinance

In reviewing the existing Affordable Dwelling Unit Ordinance, we have concluded that as currently written the Ordinance is not an effective tool for fostering creation of affordable housing in the City of Falls Church. This is evidenced by the fact that the ordinance itself has not been utilized since its creation. The City has indeed been successful in negotiating with developers to set aside approximately 5% of the units in most recent residential projects as ADUs. This negotiation has taken place in the context of the special exception process where ADUs were negotiated alongside other community benefits and proffers. To increase the effectiveness of the ordinance the team has developed the following recommendations:

Strategies	Highlights
ADU Ordinance	
Make ADU ordinance mandatory, triggered by any special exception request	<ul style="list-style-type: none">Increases process certainty for developersEliminates the exchange of ADUs for other proffers during negotiations
Refine the density bonus ratio to ensure economic incentive	<ul style="list-style-type: none">Alleviates negative financial impact of current density bonus program on high-rise constructionUtilize 6.25% requirement, consistent with what with surrounding jurisdictions are using for multifamily
Allow and encourage application of density bonus to commercial uses	<ul style="list-style-type: none">Facilitates creation of increased commercial uses, rather than increased residential uses
Allow the provision of ADUs off-site (within City limits)	<ul style="list-style-type: none">Allows for cost efficient provision of ADUs outside of a targeted project.Linking project Certificate of Occupancy to completion of off-site ADUs ensures that ADUs will be delivered
Refine and simplify existing cash contribution alternative, basing it on density (FAR)	<ul style="list-style-type: none">Increases process certainty for developersCreates funding for redeployment in other projectsFunds would be held by City until projects are identified
Zoning Ordinance	
Establish an affordable housing overlay district as part of Zoning Code study	<ul style="list-style-type: none">Seeks preservation of existing ADUs should redevelopment occurEncourages parcel assemblage for ADU creation by establishing minimum lot size (i.e., 1.5 acres) and further facilitates ADU development through setback requirements, parking requirements, height/densities.

Additional detailed discussion on the areas above follows.

Make the ADU ordinance mandatory

To ensure that ADU goals are met in each project, the ADU ordinance should be established as a requirement under any situation where a developer is pursuing a development that requires special exception review. This requirement shall be enacted in conjunction with other changes to the ordinance below to ensure that there is no negative financial impact to the developer. Making the ordinance mandatory also responds to feedback from stakeholders regarding the increasing of process certainty (developers will know exactly what is required in terms of ADUs) and it prevents the swapping of ADUs for other community amenities during the negotiation process.

Refine the density bonus ratios to ensure cost-neutrality or economic incentive

At a minimum, the required percentage of ADUs and the associated density bonus should result in zero financial impact to the developer. To truly encourage ADU creation, the density bonus should be weighted in favor of the developer to create an financial incentive for ADU provision. Based on current construction costs, our analysis has indicated that pursuing the maximum benefit (12.5% ADUs, 20% density bonus) results in negative financial impact to the developer. Adjusting the maximum ratio to 10% ADUs with a 20% density bonus swings the negative impact to a positive financial impact for the developer. To ensure competitiveness with surrounding jurisdictions, a 6.5% mandatory ADU requirement is recommended in exchange for the maximum density bonus. This approach would ensure an economic incentive exists for a developer to incorporate ADUs. As discussed below, the ordinance should incorporate an even greater bonus (i.e. 30%) on commercial use as an option in lieu of receiving a bonus on the residential uses.

Allow and encourage application of density bonus to commercial uses

As written, the ADU ordinance only allows a developer to realize additional density in the residential component of a project. Given the City's desire to increase its commercial base, the density bonus should be applicable to any use within the project (residential or commercial). If the City wishes to further encourage commercial space creation, the density bonus awarded could be greater for commercial space than for residential.

Allow the provision of ADUs off-site in the City

While setting aside ADUs in market-rate buildings may achieve economic integration, it does not represent the most optimal use of funding. While the ordinance currently allows for a cash alternative, it does not permit developers to provide ADUs at alternative off-site locations. Off-site provision would provide greater benefit in that ADU housing could be developed in a more cost efficient manner to yield a greater number of units, rather than dedicating luxury residential units as ADUs.

Given the limited land area within the City of Falls Church, off-site provision could be expanded to allow for provision of ADUs within a specified distance from any City border. However, going outside the City limits is not an approach that has been pursued by other municipalities and represents significant political risk.

Refine and simplify the existing cash contribution alternative

The current ordinance calculates the cash alternative based on the cost to purchase land and construct a unit off-site. While the intent of this approach is clear, the calculation involves a significant number of assumptions that complicate arriving at a cash amount. For example construction costs vary widely based on type of construction (stick-built vs. concrete/steel frame) and level of finish. Similarly, unless a parcel of land is being actively marketed, an exact acquisition cost cannot be established through appraisals. We propose that the City adopt a simple formula linked directly to project bonus density. This is consistent with the approach taken in

Arlington County whereby the cash contribution amount is linked to development density above 1.0 FAR.

Establish an affordable housing overlay district

To provide a means of maximizing preservation of existing ADUs and facilitating construction of new ADUs, the City should establish an affordable housing overlay district as part of Zoning Code study. The overlay district shall encourage parcel assemblage / consolidation for ADU creation within higher density corridors of the City by granting eligible sites increased densities to facilitate redevelopment.

Prior to pursuing any of the recommended changes above, the City must consult with Counsel to ensure that it is legally authorized to pursue such actions under the State of Virginia's Dillon Rule.

Redevelopment Strategies

According to the Report on Housing Needs in Falls Church, the City of Falls Church is poised to realize a potential loss of 754 'affordable' multi-family rental-housing units by 2010. As such, the City of Falls Church has identified four properties as 'at-risk' of becoming unaffordable due to market development pressures and escalating rents: Merrill House, Virginia Village, Lee Square, and Broadfalls Apartments.

Over the short term, renovation of the Merrill House property represents the most feasible alternative to preservation of affordable housing. The owner is currently evaluating renovation strategies for the property. This presents an opportunity for the City of Falls Church to partner with the owner and preserve a maximum amount of ADUs in the course of the renovation project. A similar strategy could also be applied to other property owners seeking to redevelop their properties and preserve ADUs.

Over the long term (two to five years), redevelopment of the Virginia Village property would allow for preservation of the greatest number of ADUs. Given the current low density on the site relative to the adjacent Pearson Square and City Center projects, significant unrealized development potential remains on the site. However, feasibility of further development is significantly impacted by the two to five year estimated timing to acquire / assemble the sixteen properties.

The Broadfalls Apartments and Lee Square properties represent the least feasible projects, primarily driven by lack of owner interest in redevelopment. However, over the near-term, the physical condition of both properties will impede the potential for significant escalation in rental rates. Utilizing the zoning overlay strategies discussed earlier; the City of Falls Church can create a mechanism for preserving ADUs should the property owners seek redevelopment in the future.

While each of these four sites present varying challenges to redevelopment, the consulting team suggests that the City also evaluate properties where site control already exists – either City-owned land or land controlled by Falls Church Housing Corporation. In other jurisdictions, utilizing publicly-controlled property has been instrumental in creation of ADUs, as any development cost impact of creating ADUs is borne by the public landowner (i.e. WMATA, the District of Columbia,

Montgomery County, etc). This allows for the creation of ADUs far in excess of the 12.5% current target in the existing ADU ordinance, and could facility 100% ADU projects.

Application of Public-Private Joint Ventures

Currently the City of Falls Church does not have the authority to own affordable dwelling units. As a result, the City must rely upon outside entities for the creation and long-term ownership of ADUs. Entities that may serve as potential joint-venture partners for the City fall into three general categories as described in the table below.

Potential Partners	Highlights	Strategies
Existing Property Owners	<ul style="list-style-type: none"> Given scarcity of developable property, site control is critical to new projects with ADUs Owners must already be motivated to pursue redevelopment 	<ul style="list-style-type: none"> Engage motivated owners who are seeking to redevelop their properties Encourage assemblage through ADU overlay district
Non-profit affordable housing developers	<ul style="list-style-type: none"> Given their focus on affordable housing, partnering with non-profits creates greatest opportunity for long term ownership of ADUs Access to private capital driven by project type (i.e. 100% affordable housing), thus driving a need for a combination of federal, state, local funding to create feasible projects 	<ul style="list-style-type: none"> Encourage partnerships with for-profit developers Seek non-financial approaches to facilitate projects, then enhance with funding.
For-profit commercial / residential developers	<ul style="list-style-type: none"> Market-rate projects that generate investment returns facilitate financing such projects through private sources ; and creates funding for ADUs However, ADUs created through private projects typically have expiration dates, limiting the long-term benefit to the City 	<ul style="list-style-type: none"> Reduce development barriers through ADU Ordinance strategies Encourage partnerships with non-profit developers where value-added Seek non-financial approaches to facilitate projects, then enhance with funding. Encourage potential private projects through a PPEA RFI (not full proposal) to determine level of interest and potential alternatives

The consulting team conducted research and interviews with entities falling within each of these categories to gain greater perspective on the role the City might play as a partner to each. For each type of potential partner, the City could pursue specific partnering strategies.

Existing multi-family property owners

As described in the previous section of this summary, with existing owners of multi-family housing the City could engage the owner during the to create/preserve ADUs during the course of redevelopment. In exchange for providing ADUs, the City could facilitate the redevelopment process by granting expedited project reviews, relaxing parking or setback requirements, waiving permit or impact fees, or granting additional density.

Non-profit affordable housing developers

Given the City's existing relationship with the Falls Church Housing Corporation, the organization could be utilized as a vehicle for acquisition and long-term ownership of rental ADUs. This could occur through the acquisition of existing rental units, or as a joint venture partner in the development of new units. This approach would also apply to all non-profit affordable housing developers who develop ADUs within the City of Falls Church.

For-profit commercial / residential developers

For-profit developers will deliver the greatest potential for creation of future ADUs in the City of Falls Church. The City might seek to partner with such developers in the creation of shared public facilities (i.e. parking, public space, community facilities). Such facilities would qualify under the requirements of PPEA, as discussed below. Rather than direct cash investments in such projects, however, the City could realize these community benefits as well as ADUs through proposed enhancements to the ADU ordinance.

In certain circumstances, the City may want to encourage a hybrid approach utilizing the non-profit entity as a means for taking an equity position in a project led by a for-profit developer. In return for its investment the non-profit could receive long-term ownership of ADU units thus ensuring their long-term use as ADUs. City oversight would be required to ensure that units are maintained and leased in accordance with the City's affordable housing policies.

A PPEA procurement approach could assist in facilitating proposals from any of the three categories of potential partners. It creates a mechanism for developers to not only respond to solicited request for proposals issued by public entities but also a method for private developers to present unsolicited proposals for developments that serve a public good and enable them to propose creative financing utilizing public funds. Through the encouragement of such proposals, Falls Church may receive more creative solutions beyond direct investment in specific projects.

Leveraging \$2 Million Financing

The City has established \$2 million in funding from general revenues to facilitate the creation and/or preservation of affordable housing. As part of this study, the City is seeking to gain an understanding of the most optimal approaches for deploying these funds to create or preserve affordable housing.

The table on the following page summarizes recommended strategies for deployment of this funding.

Strategies	Key Considerations
Enhance the existing affordable housing fund to increase focus on project investment and development,	<ul style="list-style-type: none">• Funds would be made available as loans and/or grants through an application to the City or via PPEA proposals• Introduction specific guidelines on deployment of funds would provide a mechanism to investment priority is placed on creating permanent ADUs that realize maximum long-term benefit to City• Funding would be further leveraged by state-level matching funds based on proposed legislation
Utilize a portion of funds to issue a Request for Expressions of Interest (RFI) through PPEA	<ul style="list-style-type: none">• RFI would enable City to gauge the interest of the development community
Utilize funds to acquire / consolidate privately owned properties for ADU development when opportunities to purchase arise.	<ul style="list-style-type: none">• City not authorized to own commercial / residential property• Limited available property in City• EDA could be utilized as an investment, acquisition, development vehicle with the constraint that properties fulfill ADU objectives

Establishment of housing trust fund for real estate project development

As determined in the evaluation of the affordable housing strategies of surrounding jurisdictions, one key element in other programs is the use of affordable housing trust funds. This would extend beyond the City's existing housing fund that is currently utilized to fund non-real estate development related activities (i.e., tenant-based subsidies).

Housing trust funds are generated through dedicated funding streams (i.e., 1 cent of property tax) from municipalities as well as through contributions from developers who choose the cash option for provision of ADUs. In the case of Falls Church, funding would be generated by the initial \$2 million, and would increase through developer contributions in lieu of building ADUs. Further, legislation has been proposed to establish a statewide Virginia Housing Trust Fund that would provide matching funds to those localities who appropriate local monies to such a fund.

Funds could be made available through grants or loans for ADU creation through an application to the City or via PPEA proposals. In all cases, the City should seek to ensure ADU development opportunities should be as economically feasible as possible in advance of a subsidy from the housing fund. Additionally, priority should be placed on projects that create permanent ADUs, to realize maximum long-term benefit to City.

Utilize funds toward PPEA request for expressions of interest

A portion of the funding should be utilized to solicit developer interest in partnering with the City through the PPEA program. Utilizing a request for expressions of interest would enable City to gauge the interest of the development community as well as gain an understanding of potential concepts that might be pursued through such partnerships. If there is widespread interest or particularly compelling concepts, the City could then move forward with a detailed RFP.

Fund acquisition / consolidation of privately owned property for ADU development

Given the limited availability of property for development in the City, there should be a targeted focus on identifying and acquiring potential sites for ADU development as they become available. Given that the City not authorized to own commercial / residential property, EDA could be utilized as a conduit entity for investment, acquisition, and development of properties fulfill ADU objectives. Such properties could also accommodate other municipal uses, such as parking structures.

Next Steps

The strategies described above are consistent with tools utilized in surrounding Northern Virginia jurisdictions to create/preserve affordable housing. Additionally, these approaches parallel those suggested by the local building industry in their independent assessment of affordable housing practices. The consulting recommends that the City of Falls Church move forward with the following next steps toward the implementation of the strategies resulting from our research and analysis:

- Enhance the existing affordable housing fund to create a dedicated trust fund for project investment and development utilizing \$2 million FY08 CIP monies and seed funding
- Adopt and implement ADU overlay district
 - Incorporate ADU overlay as a component of the zoning code revision
 - Include Housing Division participation as part of zoning code revision
- Adopt and implement enhancements to the ADU Ordinance
- Engage interested property owners on the renovation / redevelopment of at-risk properties that achieve objectives of proposed ADU Ordinance changes and overlay district
 - Identify non-financial incentives to maximize ADU preservation on site
 - Facilitate the renovation through active engagement by City staff
- Develop and issue and RFI for affordable housing PPEA proposals

Evaluation of Existing Affordable Dwelling Unit Ordinance

Overview

The first task associated with the affordable housing study was to evaluate the effectiveness of City of Falls Church’s Affordable Dwelling Unit Ordinance and provide recommendations on how to preserve and improve increase on the production of affordable dwelling units. This section describes the methodology used in evaluating the ordinance, summarizes our research, and presents recommendations for achieving the above objective.

Methodology for Completing Analysis

Our team examined the existing ordinance to understand the key parameters, incentives, and constraints provided to developers in the production of affordable housing.

We evaluated the Falls Church ordinance by benchmarking it against affordable housing practices currently in use in surrounding jurisdictions. We focused on the unique limitations that the state’s Dillon Rule places upon Virginia municipalities with respect to creating new legislation or policies. We also evaluated the recent legal challenges in Arlington County related to affordable housing legislation.

The team supplemented this information by collecting information on ADU practices in widespread use nationwide. In particular, we identified several jurisdictions as case studies for their innovative practices in creating affordable housing.

As part of this analysis, the Jones Lang LaSalle team interviewed more than 30 stakeholders including City staff, City Council, local real estate developers, non-profits, and other public agencies. Through these interviews, our team obtained first-hand feedback from those who are involved with, or impacted by, the City’s current ordinance whose goal is to promote the creation of affordable housing.

Based upon our research and analysis, the team developed findings and recommendations to enhance the City of Falls Church ADU Ordinance and related policies. Findings from all of these activities are discussed in this section.

Existing ADU Ordinance

ADU Program and Summary of Ordinance

As stated by the City of Falls Church, the Affordable Dwelling Unit Program “provides housing to low and moderate income people by developing a full range of housing choices and constructing residential properties that are affordable for purchase by households whose income is at least 50 percent and no more than 80 percent and affordable for rental by households whose income is no more than 60 percent of the median income for the Washington Primary Metropolitan Statistical Area (PMSA).”

The ADU ordinance applies to the following situations:

- Applications for rezoning, special exception, site plan, or subdivision;
- Developments which propose the construction of residential dwelling units;
- Development is located in the R-C, R-M, R-TH, T-1, or M-1 Zoning Districts; or in the B-1, B-2, and B-3 Zoning Districts only through the special exception process; or in a Mixed-Use Redevelopment (MUR) designated areas.

When a development meets the criteria above, an applicant can choose to participate in the ADU program. If the applicant chooses to participate, they are granted the following two options:

- A maximum 20% increase in density of the residential component of the development in exchange for incorporating 12.5% of the total proposed residential units as affordable units. Additionally, applicants are eligible for 100% deferral (not waiver) of development fees (i.e. site plan, rezoning, lot consolidation, subdivision, or special exception applications fees and water and sewer hookup fees). If an applicant chooses to provide less than the 12.5% of affordable units, both the density bonus and fee deferrals are adjusted based on a sliding scale.
- Alternatively, an applicant can realize the same 20% maximum increase in density of the residential component of the development if they choose to provide cash in lieu of the affordable dwelling units. The amount of cash provided must equal the total of the land costs and construction costs of the units.

These two options may be combined, with an applicant choosing to provide a portion of the units and provide the balance through “the cash in lieu of” units.

While the existing ADU ordinance is straightforward, it has never been utilized by developers. Developers in Falls Church have chosen to pursue the special exception approach, which involves negotiating all proffers (including amenities, impact fees, and ADUs) in that context.

Historical Results of Existing ADU Ordinance

In the past five years, the developers have created 40 units of affordable housing out of a total of 617 residential units created, approximately 6.5% of new units delivered.

The table below summarizes projects where these ADUs have been created:

Project	Total Units	ADUs	ADU %	FAR
Spectrum	191	8	4.2%	2.53
Broadway	80	4	5.0%	2.84
Pearson	230	15	6.5%	1.76
Byron	90	4	4.4%	2.10
	591	31	5.2%	2.31

In all of these projects highlighted above, the ADUs were created as a result of Special Exception process negotiations rather than as a result of the actual ADU ordinance. As such, there have been no units created which utilized the ordinance since its inception.

Additional projects include Whittier and Falls Park, which were both negotiated prior to the creation of the ADU ordinance. These projects created a total of 10 ADUs (6 at Whittier and 4 at Falls Park). The Read Building will also create ADUs in the form of workforce housing units developed specifically for teachers. This project was privately developed exclusive of the ADU Ordinance.

Review of ADU Ordinances in Surrounding Jurisdictions

Arlington County

Arlington County's Department of Community Planning, Housing and Development has a broad range of tools at their disposal to promote the development of affordable housing in Arlington. Such tools include:

- a) **Affordable Housing Ordinance** – The intent of the ordinance is to foster creation of affordable housing and to streamline the approval process. The developer chooses whether to provide a cash contribution or to provide affordable units. The required cash contribution or number of units is determined based on gross floor area above a floor area ratio (FAR) of 1.0.
- b) **Flexible Density Bonus** – Arlington County offers developers a 25% density bonus in exchange for additional market-rate and affordable units. The income from the additional market-rate units is designed to offset the cost of the affordable units.
- c) **1:1 Replacement** – The Special Affordable Housing Protection District (SAHPD) is a special land use overlay which identifies existing affordable housing in the Rosslyn-Ballston Metro Corridor planned for 3.24 FAR or higher. The SAHPD requires 1-for-1 replacement of the existing affordable housing units.
- d) **Shift of Density** – It is possible to shift the density from one part of a site to another within a site plan. This allowed the shift of excess density from an urban park to an adjacent portion of the Rosslyn Ridge II site by Arlington Partnership for Affordable Housing (APAH) and resulted in a 238-unit mixed income project with 95 new affordable units.
- e) **Housing Reserve Fund (HRF)** – The HRF uses private developer contributions to help finance the acquisition of units to mitigate displacement of low-income tenants and for apartment banking. The fund averages \$500,000 annually.
- f) **Transfer of Development Rights (TDRs)** – The TDR program will allow a site to send density and other development rights for the purpose of, but not limited to, the preservation or facilitation of affordable housing, open space, historic preservation, community facilities, or community recreation. Such density may be to another location through site plan approval where density is deemed more appropriate by the County.
- g) **Affordable Housing Investment Fund (AHIF)** – Arlington County currently funds AHIF with \$5.7 million annually through a combination of appropriations from Arlington County general revenues and Federal funding via the HOME program. The funding is implemented as a revolving loan fund that typically used for affordable housing acquisition and rehabilitation projects.
- h) **AHIF Plus** – This \$20 million revolving line of credit backed by County credit support can provide below market interest rate loans to developers for the same purposes as an AHIF project. These loans are payable monthly. In June 2006,

Arlington Partnership for Affordable Housing (APAH) received \$16.375 million as a short-term loan for acquisition and rehabilitation of Courthouse Crossing, a 112-unit all affordable project.

It should be noted that Arlington County was the subject of a lawsuit stemming from its previous affordable housing policy. The guidelines asked developers of residential buildings to voluntarily set aside 10 percent of floor space for the county's affordable housing program. In December 2004, an Arlington Circuit Court Judge ruled that this type of request was mandatory rather than voluntary and that, as a result, the county had exceeded its legal authority under Virginia law. As a result of the lawsuit, Arlington County revised its policy to more clearly link the provision of affordable housing units (via any of the methods described above) to the award of bonus density to a developer. Upon revision of the program the County sought and received enabling legislation from the State to allow the County to implement the new ordinance.

Fairfax County

The Fairfax County Redevelopment and Housing Authority (FCRHA) was created in 1966 and charged with initiating and providing opportunities for Fairfax County residents to live in safe and affordable housing. The Authority's stated mission is to help develop, preserve, and revitalize communities. The Authority operates its programs through the Department of Housing and Community Development (HCD), which provides administrative support to the FCHRA. Listed below are three of the County's major initiatives toward the development and preservation of affordable housing.

a. **Affordable Housing Partnership Program** – The Affordable Housing Partnership Program provides funds for nonprofit and for-profit housing development organizations for the development and preservation of affordable housing. There are three independent funding levels;

- i. **Tier One Predevelopment** – Funding is used to determine project feasibility. Loan amount cannot exceed \$50,000 and must be paid back if the project goes forward.
- ii. **Tier Two Predevelopment** – Funding is used toward predevelopment costs for further studies after feasibility has been determined. Loan amount cannot exceed \$50,000 and must be repaid regardless.
- iii. **Tier Three Affordable Housing Partnership Fund** – Dedicated funding is used for construction, bridge, gap, or permanent financing; equity; or credit enhancement. Terms are decided on a case-by-case basis, funding can be as high as 33% of the total development cost of the proposed project. Applicants for tier three funds building rental units must offer the units to households with income not exceeding 70% of the area median income. For-sale properties must be purchased by homebuyers with total household income not exceeding 120% of the area median income. In 2007, funding for this program was provided through a \$0.01 real estate tax. This resulted in \$21.9 million in funding in 2007.

b) **Affordable Dwelling Unit (ADU) Program** – This program applies to all developments that are subject to rezoning, special exception, or site plan approval where the site is to be developed at a density greater than one dwelling unit per acre, the site yields fifty or more units, and the site is located within an approved sewer service area. Applicable developments could utilize density bonuses, for;

- i. **Single-family attached or detached units** – A 20% increase in the permitted density, up to 12.5% of the units to be built on the site are to be affordable dwelling units.
- ii. **Non-elevator multiple family units or elevator multiple family units structure of three-stories or less** – A 10% increase in the permitted density. Up to 6.25% of all units to be built are to be affordable dwelling units.

- c) **Affordable Housing Preservation Initiative** – Recently, a High-Rise Affordability Panel was created to study specific policies that would encourage the development of affordable/workforce housing in Fairfax County’s high-rise/high-density areas. On October 16, 2006 the panel presented its recommendations to the Fairfax County Board of Supervisors. The panel’s recommendations include;
- i. **For concrete/steel high rise construction** – A 1.8 ratio bonus in market units for every affordable/workforce unit provided (i.e. *For a 100 unit concrete building, applying the 1.8 to 1 bonus ratio, an additional 12 units would be affordable/workforce, and an additional 22 units would be market rate, for a total of 134 units.*)
 - ii. **For wood construction** – A 1.2 ratio bonus in market rate units for every affordable/workforce unit provided (i.e. *For a 100 unit wood-frame building, applying the 1.2 to 1 bonus ratio, an additional 12 units would be affordable/workforce, and an additional 14 units would be market rate, for a total of 126 units.*)
 - iii. **Establish affordable/workforce housing as a permitted use** – In commercial and industrial zones, subject to certain restrictions and conditions.

Montgomery County

Montgomery County’s Department of Housing and Community Affairs is charged with maintaining and increasing the supply of affordable housing within the county. To achieve this objective, the agency has frequently utilized one program in addition to the more traditional incentives found locally.

- a) **Moderately Priced Dwelling Unit (MPDU) Program** – Enacted in 1974, the county’s MPDU Program requires developers of projects of 20 or more units to make 12.5% - 15% of the new units affordable to lower income households. In exchange for the affordable units developers are granted a 22% density bonus. Since the program’s inception, more than 11,800 affordable units have been developed.

Prince George’s County

Prince George’s County’s Department of Housing and Community Development’s FY 2006 Annual Action Plan outlines the County’s policies for creating and maintaining the stock of affordable housing within the County. Currently, Prince George’s County’s approach for meeting their goal is to rehabilitate the existing housing stock within the County using the following resources:

- a) **HOME Investment Partnership Program** – The Home program is an entitlement program that provides affordable housing to families and individuals with incomes below 80% of the area median income. It also encourages non-profit and for-profit developers to produce and rehabilitate housing, assist first-time homebuyers to purchase homes, acquire or improve

group homes for special populations and assist Community Development Housing Organizations to create and support housing opportunities for households of limited income. The Department of Housing and Community Development's FY 2006 plan outlines the County's intent to leverage approximately \$1.3 million in HOME funds to rehabilitate and develop rental housing.

- b) **Community Development Block Grant (CDBG)** – The CDBG program provides annual grants to entitled cities and counties to develop viable urban communities. In the FY 2006 plan, the County intends to leverage approximately \$1.8 million of CDBG funds for the rehabilitation of affordable housing.

District of Columbia

The District of Columbia's Department of Housing and Community Development (DHCD) is charged with facilitating the production and preservation of housing, community, and economic development opportunities. The DHCD supports efforts to create and maintain affordable housing opportunities through various programs, such as:

- a. **Low Income Housing Tax Credit Program (9%)** – Provides 9% federal income tax credits to developers of new or rehabilitated affordable rental housing. All housing must be provided for low- and moderate-income persons.
- b. **Low Income Housing Tax Credit Program (4%)** – Provides 4% tax credit to developers of new or rehabilitated affordable rental housing. In order to be eligible the housing must meet affordable housing guidelines (20% of units for persons with 50% AMI, 40% of units for persons with 60% AMI).
- c. **McKinney Act Loan Program** – Provides 2 year, 2% below prime loans for pre-development costs of projects that serve very low-income (below 50% AMI) populations. Loan amounts usually range between \$200,000 and \$300,000.
- d. **Multi-Family Housing Rehabilitation Loan Program** – Provides low cost interim construction financing for the rehabilitation of residential rental properties containing 5 or more units.
- e. **Tax Abatement for New Residential Development** – Intended to provide incentives for the development of new housing downtown and for the development of affordable housing in high cost areas of DC. Up to \$7 million of tax abatements can be provided per year for ten years. The abatements are available for market rate affordable, mixed-income housing projects of ten units or more. Eligible projects must be located downtown, north of Massachusetts Avenue, or in high rent neighborhoods.

Review of ADU Practices Nationwide

Various ‘best practice’ policies and planning tools are available to local governments nationwide to promote affordable housing development. The following list represents a compilation of these best practices related to affordable housing development throughout the country.

Inclusionary Zoning

Inclusionary zoning requires developers to include a number of affordable homes in new residential developments over a certain size. The number of affordable units to be included in new developments is based on a percentage of the total number of units in the development (generally 12% - 15%). The cost of providing the affordable units is offset with a density bonus.

Minimum Lot Sizes & Setbacks

Reducing minimum lot sizes or setbacks required for new residential development increases project density and decreases the cost of housing development. Technically this is not an affordable housing program, but the cost savings associated with reduced lot sizes and setbacks makes the development of affordable units more feasible. Smaller lot size and setback ordinances can be applied to any new development, or could also be restricted to target areas where a locality wishes to encourage affordable housing development.

Affordable Housing Districts

Affordable Housing Districts are areas targeted for affordable housing development. Within these areas, special zoning exceptions may be applied, such as relaxing of height restrictions and decreasing parking requirements, to offset developer costs of producing affordable housing. Affordable Housing Districts are most often formed in urban neighborhoods where the cost of developing new housing is high, but can be created in any area where affordable housing is needed.

Expedited Permitting

Because delays during any stage in the development process add to the final costs of the project, reducing the costs incurred by developers during the development review process makes affordable housing projects more attractive. Expedited permitting is a cost-efficient and effective way of reducing developer costs at no-cost to local jurisdictions.

Density Bonuses

Density bonuses are granted for projects in which the developer agrees to include a certain number of affordable housing units. For every unit of affordable housing the developer agrees to build, a jurisdiction allows the construction of a greater number of market rate units than would be allowed otherwise. Density bonuses usually vary from project to

project and do not exceed a particular threshold (e.g. 20% of normal density) determined by local officials.

Affordable Dwelling Unit Ordinance

The Affordable Dwelling Unit Ordinance is a compulsory law. Under the law, homebuilders are given a density bonus of up to 20% in return for insuring that a certain percentage of the total units will be affordable to households earning less than the area median income. The ordinance applies to for-sale and rental developments of 50 units or more and where the density is greater than one unit per acre. Included in the ordinance are guidelines for the location of the affordable units within the development and the descriptions of properties not subject to the law.

Impact Fee Waiver and Proportional Impact Fees

Impact fees are a one-time charge assess on new development to help pay for new or expanded infrastructure to serve them. Revenue collected through impact fees help fund the expansion of water and sewer lines to the new development, the building of new or improvement of existing roads or sidewalks in the area, and the creation of public amenities such as parks or new schools. In order to make affordable housing projects more attractive to developers, many localities offer to waive the impact fees associated with developments that include affordable housing units. Alternatively, a “proportional” impact fee program may be developed in which impact fees are adjusted according to the size of the housing unit or location of the new housing.

Case Studies –Municipalities with Innovative ADU Programs

Various localities that have adopted some of the affordable housing best practices mentioned earlier. The following list highlights certain localities and the affordable housing policies that they currently have in practice.

San Diego, California

When San Diego wanted to increase its supply of affordable housing, the City adopted two new inclusionary housing programs. The first program, in the “North City Future Urbanizing Area” (NCFUA), set aside twenty percent of all new units at prices affordable for families making 65 percent or less of the city’s area median income (AMI). By early 2004, more than 400 affordable homes had been built under this program. The second program was applied to the rest of the City of San Diego. Under this policy, for every new housing development with two or more homes, ten percent of the units of every new housing development had to be affordable to lower income families. These housing units were funded through the award of density bonuses to developers.

Specifically, San Diego also has four specific density bonus policies:

- The State Density Bonus Law allows a 25% increase in the number of housing units with the requirement that for the next 30 years, at least 10% of total units be reserved for very low-income households, or 20% of total units be reserved for low-income households, or 50% of total units be reserved for qualifying senior citizens.
- The Affordable Housing for the Elderly Program targets senior citizens requiring that all units house elderly households with 35% of total units reserved for very low-income elderly households. Although the increase in the number of allowable units is negotiated on a case-by-case basis, this policy allows up to 45 units per acre within designated areas.
- The Mobile-home Park Density Bonus permits mobile home park developments a density of up to 8 units per acre within and beyond established urban service areas.
- The Housing for Lower Income Families Program allows the development of low-income housing with up to 20 units per acre in designated areas, provided that all of the units are affordable to low-income families.

Santa Fe, New Mexico

By the early 1990s, three quarters of Santa Fe’s residents could not afford a median priced home, and housing costs were 40% above the national average. Santa Fe’s median housing prices were high because many out of state buyers (including wealthier retirees) purchased homes in the Santa Fe area. Complicated development processes and restrictive land use policies further hampered efforts to provide affordable housing opportunities. To address this problem, Santa Fe accelerated the processing of housing developments that included at least 25% affordably priced homes. The city also waived or reduced various impact, processing, and permitting fees for affordable housing developments. Together with other

zoning and planning tools, nearly 16% of all new homes built in Santa Fe during the last decade were affordable for working families.

Montgomery County, Maryland

As stated earlier, Montgomery County adopted its MPDU program in 1974, and since then approximately 11,800 affordable residential units have been built in the county. Additionally, developers reported that their profits on projects with inclusionary units were about the same to those of just market-rate units. This has been achieved as a result of the density bonuses that are part of the MPDU inclusionary zoning program.

Feedback from Interviews with Stakeholders

Our team’s interviews with key stakeholders involved in creating affordable housing in the City of Falls Church provided critical insight to our analysis and recommendations. During the course of our study, the team met with more than 30 individuals from City Staff, City Council, Affordable Housing Organizations, and Developers. The table below lists those individuals and organizations. Key findings from each group of stakeholders follow.

City Staff / Related Agencies	Affordable Housing Organizations
<ul style="list-style-type: none">• Planning – Gary Fuller• Zoning – John Boyle, Dennis Washington, Elizabeth Friel• CFO – John Touhy• EDO – Rick Goff, Becky Witsman• City Attorney – Roy Thorpe• Building Inspection – Doug Fisher• City Manager – Wyatt Shields, Cindy Mester• Economic Development Agency	<ul style="list-style-type: none">• Falls Church Housing Corporation• Fairfax County Department of Housing and Community Development• Wesley Housing• Arlington Partnership for Affordable Housing
City Council	Developers
<ul style="list-style-type: none">• Robin Gardner• Lindy Hockenberry• David Chavern• Daniel Maller• David Snyder• Harold Lippman• Daniel Sze	<ul style="list-style-type: none">• Avalon Bay• Waterford Development• Clark Ventures• Eakin Youngentob• The Young Group• Bozzuto Development• Silverwood Associates• Akridge• Atlantic Realty

City of Falls Church Staff / Council

The team met with the leaders of City agencies who affect, or are impacted by, affordable housing policies. Planning and zoning staff provided insight into the City’s comprehensive plan, targeted development corridors, and pending zoning code revision. Key insights from these discussions stressed the need to concentrate additional density in the West Broad Street, City Center, and Washington Street corridors.

City Council

Interviews with the Mayor, Vice Mayor, and other City Council members gave a broad view of those issues most important to Falls Church leadership and its constituency. Findings and insights gained from those discussions included:

- Any change to existing ordinances needs to recognize the potential fiscal impact to the City
- Similarly, strategies should maximize the use of public funds beyond City funding (e.g., Federal / HUD funding, Fannie Mae programs)
- Strategies should investigate the feasibility of incorporating affordable housing into commercial-focused developments, not just into residential-only projects.
- Study needs to be fully aware of Arlington County lawsuit and the impact to their housing policy
- Density should be encouraged as a means of creating affordable housing in the targeted development corridors

Private Developers

Feedback from private developers generally fell into five categories:

- Zoning flexibility – Developers indicated that the City should cast a favorable view toward projects which seek to incorporate affordable housing into a matter of right project.
- Process certainty – In all aspects of the development process, the City should seek to remove uncertainty from the entitlement/approval process. One example of removing process uncertainty would be to make ADUs mandatory rather than up for negotiation; another example would be to establish timelines for the approval process.
- Public funding -- Utilize public financing mechanisms (PPEA, tax credits, bond financing) to help achieve public benefit. Developers highlighted the benefits this has provided in other jurisdictions with dedicated funding streams and housing production trust funds.
- Community buy-in – City needs to ensure that the community understands and supports the trade-offs necessary to facilitate ADU creation (process changes, increased densities, public financing)
- Political will -- Developers expressed the need for City leadership to signal that there is political will to support the same trade-offs described above.

Not-for-profit developers stressed the benefits of economies of scale in the creation of ADUs. In larger jurisdictions or with larger portfolios, it is easier for non-profits to establish a funding stream to support ongoing operations and reinvestment in capital projects. However, in many cases non-profit developers rely heavily upon public

funding mechanisms (tax credits, grants, bonds) to facilitate creation of feasible ADU projects.

Evaluation of Alternatives to enhance ADU Ordinance

Based on the review of the existing ordinance, benchmarking with surrounding jurisdictions, researching nationwide practices, and collecting feedback from stakeholders the consulting team has evaluated the following alternatives for enhancement of the ADU Ordinance:

Revise ADU Program Density Bonus

The team evaluated two changes to the existing ADU Ordinance to provide a more favorable environment for creation of ADUs:

1. Provide a density bonus for non-residential component of a mixed-use project in lieu of, or in addition to, the residential density bonus. Given that the City wishes to stimulate commercial development, expanding the density bonus to other uses will provide an incentive for commercially focused projects to realize benefit from the provision of ADUs.
2. Adjust the density bonus to accommodate the significant increase in construction costs since the ordinance was first drafted. Based on current construction cost combined with current market and ADU sale prices, a developer would experience a loss if they chose to pursue the additional density and associated ADU requirement. Given a developer's desire to pursue profitable projects, it is unlikely that they would pursue such an option without additional financial subsidy from the City or another public source of funding.

This is illustrated in "Current Ordinance" column in the table on the following page.

3.

	Scenario A Current Ordinance	Scenario B Adjusted Ordinance	Scenario C 6.5% Requirement
Matter-of-Right Density	80,000	80,000	80,000
Matter-of-Right Units	100	100	100
Density Bonus (at Maximum)	20%	20%	20%
ADUs Required (at Maximum)	12.5%	10%	6.5%
New Density (at Maximum)	96,000	96,000	96,000
New Number of Units (at Maximum)	120	120	120
Additional ADUs Realized	15	10	8
Additional Market Rate Units Realized	5	10	12
Development Cost / Unit (800sf avg. unit size)	\$240,000	\$240,000	\$240,000
Sale Price per Market Unit	\$360,000	\$360,000	\$360,000
Sale Price per ADU	\$215,000	\$215,000	\$215,000
Profit per Market Unit	\$120,000	\$120,000	\$120,000
Profit (Loss) per ADU	(\$45,000)	(\$45,000)	(\$45,000)
Incremental Profit for Additional Market Units	\$600,000	\$1,200,000	\$1,440,000
Incremental Loss for ADUs	(\$675,000)	(\$450,000)	(\$360,000)
Total Benefit (Loss) from Density Bonus	(\$75,000)	\$750,000	\$1,080,000

Assumes: 800 SF units, \$300/SF in Development Costs (excluding land) and \$450/SF in sales price.

By adjusting the ADU requirement down from 12.5% to 10% (as shown in the “Proposed Ordinance” column), a developer realizes a significant financial gain as a result of participation in the ADU program and they would be more likely to pursue utilization of the ADU ordinance. This financial benefit grows further if the ADU requirement is reduced to 6.5%.

This type of adjustment also aligns the City with the approach taken in Fairfax County, where density bonus ratios adjust for single-family, medium-rise, and high-rise construction.

To encourage additional commercial development in the City, the team would also propose allowing any density bonus to apply to the commercial component of a mixed-use project. Currently the ADU ordinance limits such bonuses to only the residential component of a development.

Support Provision of ADUs outside of Project (Off-site or Cash Option)

The consulting team recommends encouraging developers to utilize the following options to promote the creation of ADUs:

1. Cash option: The current ordinance includes a provision for a residential density bonus in exchange for cash in lieu of affordable dwelling units. The cash provided, however, must be equivalent to the total land and construction costs of the units. As discussed later in this section the cash option should be revised to remove the level of subjectivity and uncertainty in determining construction costs and land acquisition costs.
2. Off-site provision of ADUs: Given zoning constraints, the consulting team suggests modifying the current ordinance to allow developers the option to either construct or designate units outside of the project as ADUs. The preference would be for such units to be within the City limits, however, several stakeholders expressed the need to allow provision of units outside of but within close proximity to City limits. This would enable development around the Metro stations, as well as along higher density corridors such as Lee Highway or Seven Corners. However, off-site provision should be approached on a very limited basis, and only in those situations where the City can retain long-term control over such units (i.e. through the use of Falls Church Housing Corporation as an ownership/management entity).

Pros

The above options provide developers with two more alternatives for offering affordable dwelling units. The cash option would especially be attractive to developers as it simplifies the process by which they can achieve a density bonus without sacrificing any market rate units. This cash contribution, especially when combined with cash contributions from other developments, might be more effectively leveraged by the City to fund the creation of more ADUs than might otherwise be created within the developments that funded them. For example, the equivalent value of an affordable dwelling unit in a luxury condominium project could be leveraged to create a greater number of non-luxury units elsewhere (i.e., off-site) that could designated as ADUs – thereby benefiting a greater number of residents in need of affordable housing.

The off-site provision may be preferred by developers that might be constructing projects on other sites in the City. Granting the developer the right to provide the ADUs off-site allows the developer to shift the units to a project which the ADUs might have less of a negative impact on the project's profitability. Providing the developer with yet another option allows for the developer to select the method of delivering affordable units that best suits their individual project's needs.

Cons

A potential limitation of the cash option resides in the lag time that may exist between a project's completion and the leveraging of the cash contribution towards the creation of affordable dwelling units. If the ADU were constructed as part of a developer's

project, it would deliver along with the market rate units. A cash contribution, on the other hand, may not be leveraged immediately – thereby creating a lag between the time it is offered and when the benefit becomes available to the recipient.

Potential drawbacks to the off-site provision could be dependent upon where the off-site units are actually delivered. If the developer proposes designating or constructing units outside of the City's borders, logistical and political challenges arise. Logistically it becomes difficult to administer the units and raises questions of jurisdiction. Politically, the City faces the possibility of being viewed as exporting lower-income residents outside of City borders. Such a situation could create severe political challenges.

Other limitations to realizing ADUs outside of a target project include scarcity of land elsewhere in the City of Falls Church, identification of sites to support increased residential density within existing zoning, availability of developable project sites, and difficulties in assembling sites large enough to support a project.

Create/Modify Zoning Districts for ADU preservation/creation

The consulting team recommends that the City consider the following zoning changes to promote the creation of ADUs:

1. Implementation of Affordable Housing Overlay Districts: An affordable housing overlay in designated parts of the city would simplify the processes by which developers incorporate ADUs into new development and also preserve the existing stock of at-risk ADUs.
2. Revision of the Mixed Use Redevelopment (MUR) Overlay: The current MUR overlay is underutilized due to its 66% commercial use restriction. As a result, developers have pursued the special exception approach for mixed-use projects. Under the special exception process, the project would require a rezoning to commercial use (if currently residential) and then would require the pursuit of a special exception to re-incorporate housing into the development.

Pros

Both of the above proposed zoning modifications would simplify and promote the creation of ADUs. Currently, the entitlement process discourages ADU creation by adding layers of complexity. The overlay districts would help clarify expectations to developers – thereby allowing them to factor in the required costs into their development pro formas. Also, the implementation of the overlay districts would prevent the 'by right' redevelopment of properties that do not provide for the creation of ADUs or creative additional density by parties that opt to avoid the special exception process altogether. Affordable housing districts also allow for the clear presentation of special zoning exceptions such as the relaxation of height restrictions and decreased parking requirements which would help offset the costs to produce affordable units by a developer.

As applied to the four existing at-risk properties, if the owners choose to not pursue redevelopment (even after implementation of these zoning changes), it still accomplishes the City's objectives of preserving ADUs, assuming rentals rate increases are equal or less than annual increases in AMI.

Cons

The overlay and revised MUR district both depend upon subsequent development activity occurring. If existing property owners choose to maintain their properties as-is, there would be no net creation of affordable housing units.

Refine Entitlement Process for ADUs

The consulting team recommends that the City consider the following changes to the entitlement process to promote the creation of ADUs:

1. Matter of Right Treatment for Commercial Mixed-Use Projects with ADUs. For example, if a Developer can build a matter of right 100% commercial project and wishes to incorporate ADUs (no market rate units) into that project, it should be treated in the same manner as if it remained 100% commercial.
2. Expedited Permitting: Create expedited permitting procedures for projects that include affordable units.

Pros

Delays throughout the development process translate to increased costs incurred by developers. Therefore, any reduction in time or costs during the development process would make a project that includes affordable dwelling units more attractive. The reduction of development costs would serve as an incentive to developers considering including ADUs as part of a development program.

Cons

The City of Falls Church must be prepared to comply with its own accelerated process. This may result in a need for additional staffing to review development proposals, as well as abbreviated periods for Council and public review and comment.

Separation of ADUs from other Proffers

The consulting team recommends that the City separate ADUs from the typical list of development program proffers (i.e. open space, community amenities, underground infrastructure, school capital construction, GEORGE bus contribution, arts and cultural contributions, green building, etc.) – thereby ensuring the development of additional affordable units to the City's housing stock. Making the ADU ordinance mandatory rather than voluntary will provide a mechanism for separation of ADUs from these other proffers.

Pros

Currently, the City of Falls Church treats the inclusion of ADUs as a typical proffer, which can be replaced by cash, improvements to infrastructure, and other public amenities. By separating ADUs from the typical proffer process, the City can prevent ADUs from being negotiated out of a project's development program.

Cons

From the developer's perspective, the loss of the ability to negotiate ADUs out of a development program may be viewed negatively. However, from the City's perspective, it ensures the promotion of its goals to promote the development of affordable housing.

Impact Fee Waivers

The consulting team recommends that the City either significantly reduce or eliminate impact fees for developments that include affordable dwelling units.

Pros

Though impact fees help pay for the infrastructure requirements that a development may create (water, sewer, schools, utilities, etc), they impede the inclusion of affordable dwelling units in proposed developments. The decreased profit margin (or loss) absorbed by the developer on affordable units is exacerbated by ADUs counting towards the impact fees that a developer must provide. If significantly reduced or eliminated, a developer may be more likely to include ADUs as part of its project's development scope.

Cons

The reduction or elimination of ADU impact fees might put a strain on the City's infrastructure unless the loss of fees can be offset elsewhere or if it can be shown that the impact fees generated from the market rate units would cover the impact created by the affordable units as well.

Revision of Cash Option for Provision of ADUs

As currently provided for in the ADU Ordinance, developers have the option of providing cash payment to the City in lieu of offering ADUs within a development. This cash payment is based on the cost construction and land for the provision of an ADU off-site. Given the complexity involved in accurately and consistently calculating both of these cost components, a better approach would be to link the dollar amount to the size of the building. This approach has been implemented in Arlington County, and could be adapted to the City of Falls Church.

Pros

Revising the cash option in this manner would reduce the uncertainty for developers who might pursue this alternative rather than including ADUs on site. To the extent the cash option is realized

Cons

This approach does not result in the immediate creation of on-site ADUs and would require an alternative site in which to deploy the funding.

Appraisals of At-Risk Properties

Overview

The consulting team conducted appraisals of each at-risk property to determine as-is market value. In accordance with the City of Falls Church requirements, the appraisals were conducted utilizing both a sales comparison approach and an income capitalization approach which are defined below:

- **Sales Comparison Approach** – This method uses comparisons of recently sold properties to value a subject property. Several comparable properties in the same area are chosen that sold in a reasonably recent period. A value is determined for the subject property by comparing features of these properties (i.e. physical condition, architectural / engineering constraints, finishes, etc) to the subject property.
- **Income Capitalization Approach** – This method is used to value properties that produce rental income in some form. The net income a property generates on annual basis is used to determine its fair market value. This income stream is converted to a present value (or “capitalized”) to determine property value.

These appraisals do not necessarily reflect a price that a seller would be willing to take, particularly in the case of Virginia Village, where current sellers may inflate their desired price to realize a portion of the value that results from assembling and increasing the density on the overall site.

Appraisal Results

The table below summarizes the results of the property appraisals:

Property	Year Built	Land Area (acres)	Building Area (sq. ft.)	Number of Units	Appraised Value (millions)
Merrill House	1964	4.82	164,679	159	\$23.5
Virginia Village	1941	3.14	40,960	64	\$8.0
Lee Square	1964	5.46	152,955	115	\$16.9
Broadfalls Apartments	1963	2.87	101,837	113	\$17.0

The complete self-contained appraisal reports for each of the at-risk properties are provided in the Appendix. Section IV of this report analyzes potential property values resulting from redevelopment alternatives.

Redevelopment Strategies for At-Risk Properties

Overview

The City of Falls Church has engaged Jones Lang LaSalle to identify and evaluate the feasibility of potential redevelopment and renovation scenarios for the ‘at-risk’ properties. Each scenario comprised a pro forma analysis of potential future cash flows, derived from our informed assumptions of revenue, operating expenses, development costs, and required rates of return. Each redevelopment and/or renovation scenario assumed the preservation of at least 12.5% of the total number of new units as affordable for residents earning between 60 – 80% of the Area Median Income (AMI). Upon completion of the analysis, our team prepared a summary of each scenario and presented recommendations to City staff and Council.

Market Context

At present, the Washington, DC metropolitan area is characterized by an oversupply of for-sale condominiums. According to Delta Associates, a local research firm, the current supply of condominiums represents a 12 to 16 month inventory given absorption trends. The resultant slowdown in the for-sale residential market has caused the cancellation of many planned condominium developments. Delta Associates estimates the removal of 10,000 units from the development pipeline, with nearly 3,000 of those units converting to rental units – thus reversing the recent trend of apartment to condominium conversions.

Despite cancellations in planned developments, housing market demand is expected to remain relatively constant due to positive underlying economic and demographic factors. Rising income levels and projected long-term employment growth will help sustain positive absorption trends. In the City of Falls Church, these trends indicate continued pressure on housing availability and affordability.

Further constraining the residential supply are the high costs of land and rising construction costs in the metropolitan area. The increasing costs associated with development severely impact the feasibility of a potential project. As a result, there are few new projects in the metropolitan area, and specifically in the City of Falls Church, being constructed. Furthermore, the few projects that are being developed are targeting the luxury segment, as the higher rents and sales prices enable project feasibility.

Summary of Redevelopment Strategies

Four ‘at-risk’ affordable housing projects in the City of Falls Church were identified. The attributes and constraints of each site were evaluated with respect to development potential. Additionally, each site was analyzed in order to determine the potential to either renovate/reuse, or redevelop the existing buildings as well as the potential areas for new development on the site. All analysis focused on preserving a portion of the sites as “affordable” housing.

The table below summarizes the renovation and new construction scenarios for the four ‘at-risk’ properties. For each of the scenarios, we identify the number of affordable units that would exist following renovation or construction, along with any subsidy that might be required in order for a developer to achieve a return on equity consistent with the market. The Required Subsidy represents the incremental value lost as a result of the renovation or construction. This value could be addressed through approaches such as increased density of market-rate uses; utilization of lower-cost public financing (via City or Federal programs); or through a cash direct investment by the City.

Land Area	Building Area	Existing Units	Strategy	Resulting Units		Required Subsidy
				Total	ADUs	
Merrill House (AIMCO)						
4.82 acres	164,679 GSF	159	Renovation	159	20	(\$400,685)
			New Construction	304	43	\$0
Virginia Village (Multiple Owners)						
3.59 acres	51,200 GSF	64	Renovation	64	8	(\$1,154,433)
			New Construction	217	48	\$0 *
Lee Square (RMP Family, LLC)						
5.46 acres	152,995 GSF	115	Renovation	115	14	\$0
			New Construction	294	42	(\$3,000,000)
Broadfalls Apartments (Asher Associates)						
2.87 acres	101,837 GSF	113	Renovation	113	14	(\$558,587)
			New Construction	155	22	(\$12,000,000)

* Note -- The proposed new construction scenario for Virginia Village is non-conforming with existing zoning regulations and assumes a greater percentage of units to be set aside as affordable units (approximately 18%). The new construction scenario was based on guidance from the City of Falls Church housing staff. Under the new construction scenario, a subsidy through public funding or additional density would be required to achieve a 15% return.

As indicated in the table on the following page, renovation / redevelopment of any of these properties will also have provide benefit to the City in terms of fiscal impact. While the exact benefit would vary based on the final determination of value for a renovated / redeveloped property there would be a definite increase in cash flow to the City.

Property	Site Acreage	Proposed New Square Footage	Proposed FAR	Estimated New Construction Cost	Estimated Current Real Estate Tax ¹	Estimated New Gross Real Estate Tax ¹	Net New Real Estate Taxes ¹
Merrill House	4.82	367,000	1.74	\$110,500,000	\$214,969	\$1,116,050	\$901,081
Virginia Village ²	3.59	281,000	1.68	\$108,760,000	\$96,960	\$1,098,478	\$1,001,518
Lee Square	5.46	356,000	1.49	\$124,000,000	\$128,622	\$1,252,400	\$1,123,778
Broadfalls Village ³	2.87	187,500	1.50	\$66,700,000	\$121,142	\$673,670	\$552,528
Total	16.74	1,191,500		\$409,960,000	\$561,693	\$4,140,598	\$3,578,905

1. Tax data information provided by City of Falls Church

2. Includes 40,000 sq ft of new office space and 20,000 sq ft of new retail space

3. Includes 31,250 sq ft of retail (compared to 9,900 before redevelopment)

Recommendations

Over the short term, renovation of the Merrill House property represents the most feasible alternative to preservation of affordable housing. The owner is currently evaluating renovation strategies for the property which presents the opportunity for the City of Falls Church to partner with the owner and preserve ADUs in the course of the renovation project. More specific discussion of partnering strategies is included in Section V – Public Private Joint Ventures.

Over the long term, redevelopment of the Virginia Village property would allow for preservation of the greatest number of ADUs. Given the current low density on the site relative to the adjacent Pearson Square and City Center projects, significant unrealized development potential remains on the site. However, feasibility of further development is significantly impacted by the need to assemble the 16 properties.

The Broadfalls Apartments and Lee Square properties represent the least feasible projects, primarily driven by lack of owner interest in redevelopment. However, over the near-term (five to eight years), the physical condition of both properties will impede the potential for significant escalation in rental rates. Utilizing the zoning overlay strategies discussed earlier; the City of Falls Church can create a mechanism for preserving ADUs should the property owners seek redevelopment in the future.

Merrill House

The Merrill House site, located at 210 East Fairfax Street in Falls Church, Virginia, is approximately 4.82 acres in size and includes a 7-story, 164,679 square foot apartment building (Merrill House). Constructed in 1964, Merrill House contains 159 units ranging in size from efficiency to four-bedrooms. The Merrill House site map is included below.



Existing Zoning

The Merrill House site is currently zoned “R-M” which designates it as a multi-family residential district. According to the zoning code for the City of Falls Church, a multi-family residential district typically allows for the development of multi-family dwellings, boarding or lodging houses, or mixed-use development. However, since this analysis focuses primarily on residential development, the zoning ordinances used to determine the redevelopment potential of the site will be those that specifically deal with multi-family residential development.

The multi-family district typically allows for dwellings that are 35 feet in height and maximum lot occupancy of 25% for the building itself. Together with all vehicular parking areas, driveways, and loading areas, no more than 50% of the lot area shall be covered. However, there are conditional permitted uses for this site that includes multi-family dwellings up to 75 feet in height.

Surrounding Zoning

A map illustrating the zoning of the parcels surrounding the Merrill House site is included below:



- **R – C Zoning:** To the immediate east of the Merril House site is a parcel of land designated as a “cluster residence district.” R – C zoning permits single-family, two-family, and townhouse development. There is a maximum density of eight dwellings per acre, and total lot coverage of the dwellings and accessory structures can not exceed 20% of the gross site area. Dwelling units can have a maximum of 35-feet.
- **R – 1A Zoning:** To the northeast of the Merril House site is a parcel of land designated as a “low density residential district.” R – 1A zoning permits the development of single-family dwellings as well as churches, parochial schools, public parks, and community centers. There is a maximum height of 35-feet for the dwelling units, and the dwelling units can not cover more than 25% of the gross site area.
- **B – 3 Zoning:** To the west of the Merril House site is a parcel of land designated as a “general business district.” B – 3 zoning permits the development of public buildings/facilities, hotels/motels, offices for medical/dental/optical laboratories, and restaurants. There is a maximum height limit of 85-feet for any development within a “general business district”.
- **O – D Zoning:** To the north of the Merril House site is a parcel of land designated as an “official design district.” O – D zoning permits the development of single-family dwellings, professional office buildings, community centers, and hotels.

Ownership

The Merril House was constructed in 1964 on the 4.82 acre site and is currently owned by Aimco Merril House, LLC who purchased the property in January of 2000 for \$12 million. In 2006 the site was assessed by the City of Falls Church at approximately \$17.3 million with the land and improvements comprising \$10.5 million and \$6.8 million of the value, respectively.

SWOT Analysis

Strengths

- *Parcel Size:* The Merrill House site is the second largest parcel of land at 4.82 acres. If the site were redeveloped it would allow for anywhere between approximately 157,000 – 367,000 square feet of residential development should the additional height allowance be permitted.

Weaknesses

- *Ownership:* Although the Merrill House site is owned by a large residential real estate investment trust (REIT) as opposed to a smaller private owner, the City of Falls Church may still have a difficult time convincing AIMCO to renovate/redevelop the site while maintaining the “affordable” component should it not meet AIMCO’s strategic goals.
- *Affordable Component:* The affordable housing requirement may be a potential weakness for any of the four potential properties. With the affordable component, the average rental rate per square foot effectively decreases by about 5% based upon the 12.5% requirement. This decrease in the rental rate also negatively impacts the net operating income and return for the project.

Opportunities

- *Potential for Renovation:* From the site analysis conducted, it appears that the Merrill House is in the best physical condition. Furthermore, the site’s owner AIMCO has previously expressed interest in exploring the renovation and potential expansion of the site. These factors would suggest that the Merrill House may be the best opportunity for the City of Falls Church to meet their goal.

Threats

- *Surrounding Low-Density:* The area immediately surrounding Merrill House is characterized by predominantly low-density development. Any potential redevelopment scenario that proposes an increase in density might face community opposition.

Redevelopment Options

In order to assess the potential subsidies needed in order to retain the “at-risk” affordable housing within the City of Falls Church, Jones Lang LaSalle considered two options for the Merrill House site:

1. Renovation of the existing structure
2. Demolishing the existing structure and redeveloping the site to the maximum allowable density (assuming 75-foot height limits).

Renovation Scenario

To determine the feasibility of renovating the existing improvements on the Merrill House site, Jones Lang LaSalle developed a scenario in which the current units are renovated into comparable Class A units. For the purpose of this analysis, it was

assumed that the existing utilities on the site have sufficient capacity to accommodate the renovated units and that there would be no additional development to supplement the existing improvements.

Jones Lang LaSalle assumed that 12.5% of the existing units would be deemed “affordable” and the remainder would be market units. Because the units require renovation, Jones Lang LaSalle assumed that the rental rates for the market units would be slightly lower than those of the newer Class A units in the area. In order to reflect this lower rental rate, Jones Lang LaSalle assumed a 10% discount from the rental rates of comparable Class A structures in the area.

Without being able to conduct a detailed inspection of the existing structure, it is difficult to determine the extent of renovation required in order to bring the units up to a Class A standard. For the purpose of this analysis, Jones Lang LaSalle assumed that the current units were kept in fair condition. After consulting internal resources with residential development and renovation experience, our team determined that it would cost, on average, approximately \$30,000 per unit to renovate an existing unit in fair condition into a Class A unit.

For the renovation scenario, Jones Lang LaSalle assumed that the current landlord would renovate the improvement over an eighteen month period, after the renovation period the landlord would be able to charge a premium for the market rate units. In order for the renovation scenario to be justifiable, the cost of renovation will need to be more than offset by the increase in rent for the market rate residential rental units. The current rental rates for the Merrill House apartments can be found in the table below:

Current Rental Rates for Merrill House

Type	Unit	Amount
Efficiency	<i>\$/Square Foot/Year</i>	\$24.42
One-bedroom/One-bath	<i>\$/Square Foot/Year</i>	\$18.65
One-bedroom/One-bath w/ Den	<i>\$/Square Foot/Year</i>	\$19.18
Two-bedroom/One-bath	<i>\$/Square Foot/Year</i>	\$17.45
Two-bedroom/Two-bath	<i>\$/Square Foot/Year</i>	\$18.26
Three-bedroom/Two-bath	<i>\$/Square Foot/Year</i>	\$13.26
Four-bedroom/Two-bath	<i>\$/Square Foot/Year</i>	\$13.53

Currently, there are 159 units in the Merrill House building; with an assumed renovation cost of \$30,000 per unit the total renovation costs for the Merrill House would be approximately \$4.77M. Jones Lang LaSalle assumed that 12.5% of the renovated units would be deemed “affordable,” with the rest being market rate units. This results in 20 affordable units and 139 market rate units.

Jones Lang LaSalle assumed that post-renovation, the landlord would be able to charge premium rents for the market rate units. The affordable rental rates were pulled from a Housing and Urban Developments (HUD) FY 2007 report on fair market rents

for the Northern Virginia area that includes Falls Church. The following table illustrates the average rental rates for market and affordable units post-renovation:

Average Post-Renovation Rental Rates for Merrill House

Type	Unit	Amount
Affordable Units	<i>\$/Square Foot/Year</i>	\$16.00 (\$1,200/month)
Market Rate Units	<i>\$/Square Foot/Year</i>	\$24.00 (\$1,800/month)

In order for the renovation scenario to be feasible, the present value of the increase in rental revenues will have to be greater than the present value of the renovation costs. The table below illustrates the key factors used to determine the financial feasibility of the renovation scenario:

Excess Revenue Generated for Merrill House

Criteria	Unit	Amount
Current Rental Revenue	<i>\$/Square Foot/Year</i>	\$18.51 (\$1,388/month)
Post-Renovation Rental Revenue	<i>\$/Square Foot/Year</i>	\$23.00 (\$1,725/month)
Increase (decrease) in Rental Revenue	<i>\$/Square Foot/Year</i>	\$4.49 (\$337/month)
Renovation Costs	<i>\$/Unit</i>	\$30,000
Total Renovation Costs	\$	\$4,770,000
Total Increase in Rental Revenue*	<i>\$/Year</i>	\$664,900

*Based on total rentable square footage of 148,085 square feet for the residential space

Assuming a ten-year post-renovation cash flow period and a 7.00% discount rate, the renovation costs would still be greater than the difference in rental rate revenue. The incremental value created/(lost) through the renovation would be (\$400,685).

New Construction Scenario

For the new construction scenario, Jones Lang LaSalle utilized the zoning ordinances of the City of Falls Church in order to determine how much space could be built on the Merrill House site. Jones Lang LaSalle assumed a maximum lot coverage ratio of 25% and maximum building heights of 75 feet in order to derive maximum square footage.

The redevelopment criteria for the Merrill House site can be found in the table below:

Redevelopment Scope for Merrill House

Criteria	Unit	Amount
Residential Rental	<i>Gross Square Feet</i>	367,000
	<i>Rentable Square Feet</i>	311,950
Average Unit Size (Residential Rental)	<i>Rentable Square Feet</i>	900
Market Rate Component	<i>Units</i>	304
Affordable Component*	<i>Units</i>	43

* Assumes 12.5% of residential units are affordable

Our team again utilized internal resources to determine the potential development costs for this mixed-use development. We assumed that Class A residential rental units were being developed.

Redevelopment Costs for Merrill House

Criteria	\$/Square Foot*	Total Cost
Residential Rental	\$300	\$110,500,000

* Costs per square foot includes \$75 per square costs for building out residential rental development

In order to determine the feasibility of redevelopment at the Merrill House site, our team assumed that a private developer would require a 15% leveraged reasonable return. Using operating assumptions derived from market comparables, we were able to determine what the land would need to sell for to make the development feasible. The operating assumptions and land value can be found in the table below:

Operating Assumptions for Redevelopment

Criteria	Unit	Amount
Market Residential Rental Rate	\$/Square Foot/Year	\$16.00 (\$1,200/month)
Affordable Residential Rental Rate	\$/Square Foot/Year	\$24.00 (\$1,800/month)
Land Value	\$/FAR Foot	\$0.00

In order for a private developer to achieve a 15% leveraged reasonable return, the land would have to be worthless or \$0 per FAR foot. While land value is not negative in this scenario, there would still need to be a subsidy in order to give the land owner fair market value for the land.

Recommendation and Limitations

Merrill House, currently non-conforming to current zoning regulations, would experience a loss of total square footage if the building were to be demolished and the site redeveloped under current zoning. Therefore, it is unlikely that its owner, AIMCO, would pursue a new construction redevelopment scenario.

However, AIMCO has expressed interest in renovating the site and has previously looked into potential expansion of the site which might pose an opportunity for the City. The City could consider granting a density bonus to AIMCO in exchange for the preservation and/or the development of affordable housing. One potential scenario could have AIMCO grant underutilized land on the site to either the City or a non-profit (e.g. Falls Church Housing Corporation) for the development of affordable dwelling units that would be owned/operated by the City or the non-profit in exchange for the right to develop additional units for its Merrill House development.

Virginia Village

The Virginia Village site is located on South Maple Avenue, just south of Broad Street. The site consists of sixteen smaller parcels of land with two streets running through the community – Shirley and Gibson Streets. In total, the site is approximately 2.23 acres in size. There are sixteen four-plexes on the land, one on each parcel. All of the existing units are separately owned by the current tenants of the buildings and each contains four one-bedroom apartments of about 520 square feet. There is no designated parking on the site; all parking is on the street. A map illustrating the Virginia Village site can be found below:



Existing Zoning

The Virginia Village site is currently zoned “R-M” which designates it as a multi-family residential district. According to the City’s zoning code, multi-family residential district typically allows for the development of multi-family dwellings, boarding or lodging houses, or mixed-use development. However, since this analysis focuses solely on residential development, the zoning ordinances used to determine the redevelopment potential of the site will be those that specifically deal with multi-family residential development.

The multi-family district typically allows for dwellings that are 35-feet in height and whose footprint does not cover more than 25% of the lot area. Together with all vehicular parking areas, driveways, and loading areas, no more than 50% of the lot area shall be covered. However, there are conditional permitted uses for this site that includes multi-family dwellings up to 75-feet in height.

Surrounding Zoning

A map illustrating the zoning of the parcels surrounding the Virginia Village site can be found below:



- **R – 1B Zoning:** To the west of the Virginia Village site is a parcel of land designated as a “medium density residential district.” R – 1B zoning permits the development allowed in R – 1A Zoning as well as two-family dwellings. For single-family homes there is a minimum required lot coverage area of 7,500 square feet, for two-family dwellings the minimum lot coverage area is 12,000 square feet. There is a maximum height of 35-feet for the dwelling units, and the dwelling units can not cover more than 25% of the gross site area.
- **B – 2 Zoning:** To the east of the Virginia Village site is a parcel of land designated as a “central business district.” B – 2 zoning permits the development of public buildings/facilities, hotels/motels, offices for medical/dental/optical laboratories, and restaurants. There is a maximum height limit of 115-feet for any development within a “central business district.”
- **B – 3 Zoning:** To the southwest of the Virginia Village site is a parcel of land designated as a “general business district.” B – 3 zoning permits the development of public buildings/facilities, hotels/motels, offices for medical/dental/optical laboratories, and restaurants. There is a maximum height limit of 85-feet for any development within a “general business district.”

Ownership

The majority of the sixteen properties at the Virginia Village site have different owners. The Falls Church Housing Corporation (FCHC) currently owns two of the assets at 204 Gibson Street and 300 S. Maple Avenue. Each asset has been assessed in 2006 by the City of Falls Church based upon the current operating income. Each asset is currently valued between \$550,000 and \$600,000.

SWOT Analysis

Strengths

- **Redevelopment Potential:** The Virginia Village site has the potential, if redeveloped, to increase the inventory of residential rental units within the City of Falls Church. Currently, there are sixteen, four-unit buildings, yielding a

total of sixty-four apartments. Should all of the current assets be demolished and replaced with a new development, the inventory of homes could potentially increase significantly. Given its inefficient use of the land, this property represents a great opportunity for an increased inventory of market rate and affordable rate housing for the City.

- *Surrounding Uses:* The Virginia Village site is located between the Pearson Square development and the planned development of Falls Church City Center. The site's location represents a gap in development density which strengthens an argument for a redevelopment plan that proposes an increase in density at the site.

Weaknesses

- *Ownership:* One considerable weakness that faces all of the projects is the private ownership of the assets. Without the participation and willingness of the current ownership of the property, the City of Falls Church lacks the ability to make any changes to the properties. Virginia Village presents a unique challenge as all of the properties are individually owned. Any attempt to redevelop the entire site would require the assemblage of all sixteen parcels.
- *Affordable Component:* The affordable housing requirement may be a potential weakness for any of the four potential properties. With the affordable component, the average rental rate per square foot effectively decreases by about 5% based upon the 12.5% requirement. This decrease in the rental rate also negatively impacts the net operating income and return for the project.

Opportunities

- *Retail Potential:* The site's close proximity to a major thoroughfare (S. Washington Street) would allow for the potential of ground floor retail should the site undergo redevelopment. The ground floor retail could potentially serve both the residents within the new building as well as the surrounding area.

Threats

- *Sale Price Escalation:* The recently announced City Center development may drive acquisition/assemblage prices beyond the point of project feasibility.

Redevelopment Options

In order to assess the potential subsidies needed in order to retain the "at-risk" affordable housing within the City of Falls Church, Jones Lang LaSalle considered two options for the Virginia Village site:

1. Renovation of the existing structures.
2. Demolishing the existing structures and roads, and redevelop the site to the maximum allowable density (assuming 75-foot height limits). Because of the sites close proximity to a main thoroughfare, Jones Lang LaSalle also assumed first floor retail in the redevelopment scenario.

Renovation Scenario

In order to determine the feasibility of renovating the current improvements on the Virginia Village site, Jones Lang LaSalle developed a scenario in which the current

units are renovated into Class A units. For the purpose of this analysis, it was assumed that the existing utilities on the site have sufficient capacity to accommodate the renovated units and that there would be no additional development to supplement the existing improvements.

Jones Lang LaSalle assumed that 12.5% of the existing units would be deemed “affordable” and the remainder would be market units. Because the units are being renovated, Jones Lang LaSalle assumed that the rental rates for the market units would be slightly lower than those of the newer Class A units in the area. In order to reflect this lower rental rate, Jones Lang LaSalle assumed a 10% discount from the rental rates of comparable Class A structures in the area.

Without actually walking through the existing structure it would be difficult to determine the exact extent of renovation required in order to bring the units up to a comparable Class A standard. For the purpose of this analysis, Jones Lang LaSalle assumed that the current units were kept in fair condition. After consulting internal resources with residential development and renovation experience, our team determined that it would cost, on average, approximately \$30,000 per unit to renovate a lower class unit in fair condition into a Class A unit.

For the renovation scenario, Jones Lang LaSalle assumed that the current landlord would renovate the improvement over an eighteen-month period, after the renovation period the landlord would be able to charge a premium for the market rate units. In order for the renovation scenario to be justifiable, the cost of renovation will need to be more than offset by the increase in rent for the market rate residential rental units. The current rental rates for the Virginia Village apartments can be found in the table below:

Current Rental Rates for Virginia Village

Type	Unit	Amount
One-bedroom/One-bathroom	<i>\$/Square Foot/Year</i>	\$19.50 (\$845/month)

Currently, there are a total of 64 units in Virginia Village, with an assumed renovation cost of \$30,000 per unit the total renovation costs for Virginia Village would be approximately \$1.92M. The renovation scenario only assumes the renovation of the residential units, not the ground floor retail space. Jones Lang LaSalle assumed that 12.5% of the renovated units would be deemed “affordable,” with the rest being market rate units. This results in 8 affordable units and 56 market rate units.

Jones Lang LaSalle assumed that post-renovation, the landlord would be able to charge premium rents for the market rate units. The affordable rental rates were pulled from a Housing and Urban Developments (HUD) FY 2007 report on fair market rents for the Northern Virginia area that includes Falls Church. The following table illustrates the average rental rates for market and affordable units post-renovation:

Average Post-Renovation Rental Rates for Virginia Village

Type	Unit	Amount
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Affordable Units	<i>\$/Square Foot/Year</i>	\$16.00 (\$693/month)
Market Rate Units	<i>\$/Square Foot/Year</i>	\$24.00 (\$1,040/month)

In order for the renovation scenario to be feasible, the present value of the increase in rental revenues will have to be greater than the present value of the renovation costs. The table below illustrates the key factors used to determine the financial feasibility of the renovation scenario:

Excess Revenue Generated for Virginia Village

Criteria	Unit	Amount
Average Current Rental Revenue	<i>\$/Square Foot/Year</i>	\$19.50 (\$845/month)
Average Post-Renovation Rental Revenue	<i>\$/Square Foot/Year</i>	\$23.00 (\$997/month)
Increase (decrease) in Rental Revenue	<i>\$/Square Foot/Year</i>	\$3.50 (\$152/month)
Renovation Costs	<i>\$/Unit</i>	\$30,000
Total Renovation Costs	\$	\$1,920,000
Total Increase in Rental Revenue*	<i>\$/Year</i>	\$116,500

*Based on total rentable square footage of 33,280 square feet for the residential space

Assuming a ten-year post-renovation cash flow period and a 7.00% discount rate, the renovation costs would still be greater than the difference in rental rate revenue. With an eighteen-month renovation period and a ten-year hold after renovation, this scenario is not feasible.

New Construction Scenario

For the new construction scenario, Jones Lang LaSalle, rather than utilizing the zoning ordinances of the City of Falls Church in order to determine how much space could be built on the Virginia Village site, relied upon guidance for a potential redevelopment scenario from the City of Falls Church's housing office. The proposed new construction scenario, though non-conforming to existing zoning regulations, assumes an approval of the requisite zoning allowances. It is also important to note that this scenario assumes a greater percentage of units to be set aside as affordable units (approximately 18%).

The redevelopment criteria for the Virginia Village site can be found in the table below:

Redevelopment Scope for Virginia Village

Criteria	Unit	Amount
Residential Rental	<i>Gross Square Feet</i>	281,000
	<i>Rentable Square Feet</i>	238,850
Retail	<i>Gross Square Feet</i>	20,800
Office	<i>Gross Square Feet</i>	40,000
Average Unit Size (Residential Rental)	<i>Rentable Square Feet</i>	900
Market Rate Component	<i>Units</i>	217
Affordable Component*	<i>Units</i>	48

* Assumes 18% of residential units are affordable

Our team again utilized internal resources to determine the potential development costs for this mixed-use development. We assumed that Class A residential rental units were being developed with ground floor retail space. It is important to note that for retail development, tenant improvement (TI) costs, will vary with the type of retail tenant. Generally speaking, restaurants and bank branches are usually given the highest allotment of TI for their space TI for executed restaurant leases usually range anywhere from \$30.00 - \$80.00 per square foot, while bank space usually ranges between \$30.00 - \$55.00 per square foot. For the purpose of this analysis, our team assumed a per square foot TI cost of \$40.00. The total development costs by use can be found in the table below:

Redevelopment Costs for Virginia Village

Criteria	\$/Square Foot*	Total Cost
Residential Rental	\$311	\$87,400,000
Retail	\$328	\$7,960,000
Office	\$335	\$13,400,000

* Costs per square foot includes \$40 TI costs for retail, and \$75 per square costs for building out residential rental development, they do not include land acquisition costs

In order to determine the feasibility of redevelopment at the Virginia Village site, our team assumed that each of the sixteen four-plexes would be acquired for \$800,000 each for a total of \$12.8 million.

Operating Assumptions for Redevelopment

Criteria	Unit	Amount
Market Residential Rental Rate	\$/Square Foot/Year	\$26.00 (\$1,950/month)
Affordable Residential Rental Rate	\$/Square Foot/Year	\$16.00 (\$1,200/month)
Retail Rental Rate	\$/Square Foot/Year	\$28.00
Office Rental rate	\$/Square Foot/Year	\$30.00
Land Value*	\$/FAR Foot	\$37.00

* Assumes that each of the 16 four-plexes are acquired for \$800,000

Based on the assumptions, the developer's return on equity would be 2.5% - considerably below the 15% return on equity threshold that a traditional developer seeks. However, our team concludes that this return can be enhanced through public financing and alternative deal structures which are to be discussed in the following sections. At the current 2.5% return on equity, the land would be valued at \$37.00 per FAR foot.

Recommendation and Limitations

Virginia Village, given the current low-density, poses a great opportunity for the City of Falls Church to increase its inventory of market rate and affordable housing units if

demolished and redeveloped with higher density. Compared to surrounding uses, Virginia Village is less dense than Pearson Square and the planned City Center development – thereby making plausible to argue for increased density. However, any planned redevelopment would face serious assemblage challenges as the sixteen buildings that comprise Virginia Village are held by multiple owners.

Lee Square

The Lee Square site is located at 126 Channel Terrace in Falls Church, Virginia. The site is approximately 5.46 acres in size and currently has a 3-story, 152,955 square foot apartment building (Lee Square) located on it. Built in 1964, Lee Square contains 115 units ranging in size from one to three bedrooms. A map illustrating the Lee Square site as well as the improvements located on it can be found below.



Existing Zoning

The Lee Square site is currently zoned “R-M” which designates it as a multi-family residential district. According to the City’s zoning code, multi-family residential district typically allows for the development of multi-family dwellings, boarding or lodging houses, or mixed-use development. However, since this analysis focuses solely on residential development, the zoning ordinances used to determine the redevelopment potential of the site will be those that specifically deal with multi-family residential development.

The multi-family district typically allows for dwellings that are 35 feet in height and whose footprint does not cover more than 25% of the lot area. Together with all vehicular parking areas, driveways, and loading areas, no more than 50% of the lot area shall be covered. However, there are conditional permitted uses for this site that includes multi-family dwellings up to 75 feet in height.

Surrounding Zoning

A map illustrating the zoning of the parcels surrounding the Lee Square site can be found below:



- **R – C Zoning:** To the immediate west of the Lee Square site is a parcel of land designated as a “cluster residence district.” R – C zoning permits single-family, two-family, and townhouse development. There is a maximum density of eight dwellings per acre, and total lot coverage of the dwellings and accessory structures can not exceed 20% of the gross site area. Dwelling units can have a maximum of 35-feet.
- **R – 1A Zoning:** To the west of the Lee Square site is a parcel of land designated as a “low density residential district.” R – 1A zoning permits the development of single-family dwellings as well as churches, parochial schools, public parks, and community centers. There is a maximum height of 35-feet for the dwelling units, and the dwelling units can not cover more than 25% of the gross site area.
- **B – 1 Zoning:** To the northeast of the Lee Square site is a parcel of land designated as a “limited business district.” B – 1 zoning permits the development of public institutions, business offices, hotels/motels, museums, retail (restaurants), and other mixed-use redevelopment. There is a maximum height limit of 85-feet for this district.

Ownership

Lee Square was constructed in 1964 on the 5.46 acre site. It is currently owned by RMP Family, LLC. It was bought in May of 2000 for an undisclosed amount. In 2006 the site was assessed by the City of Falls Church for approximately \$11 million. The land was assessed for \$6.5 million and the building was assessed for an additional \$4.5 million.

SWOT Analysis

Strengths

- **Location:** Lee Square is located just off of West Broad Street, one of the main thoroughfares in the City of Falls Church. The ease of accessibility and its close proximity to surrounding amenities are both strengths for this site. The

location on a major thoroughfare would offer any new residential development excellent visibility.

- *Parcel Size:* The Lee Square site is the largest parcel of land at 5.46 acres. If the site were redeveloped it would allow for anywhere between approximately 178,000 – 416,000 square feet of residential development should the additional height allowance be permitted.

Weaknesses

- *Parcel Configuration:* Limited site width along the street frontage (West Broad Street) limits the ability to create significant high-density on that portion of the site. The remainder of the site's acreage lies adjacent to low-density housing which would also prevent any high-density redevelopment.
- *Affordable Component:* The affordable housing requirement may be a potential weakness for any of the four potential properties. With the affordable component, the average rental rate per square foot effectively decreases by about 5% based upon the 12.5% requirement. This decrease in the rental rate also negatively impacts the net operating income and return for the project.

Opportunities

- *Retail Potential:* The site's close frontage on a major thoroughfare would allow for the potential of ground floor retail should the site undergo redevelopment. The ground floor retail could potentially serve both the residents within the new building as well as the surrounding area.

Threats

- *Competition:* The site is located within one mile of six new developments that are either planned, under construction, or have been recently completed (City Center, The Spectrum, The Read Building, Pearson Square, The Byron, and The Broadway).

Redevelopment Options

In order to assess the potential subsidies needed in order to retain the “at-risk” affordable housing within the City of Falls Church, Jones Lang LaSalle considered two options for the Lee Square site:

1. Renovation of the existing structure
2. Demolishing the existing structure and redeveloping the site to the maximum allowable density (assuming 75-foot height limits). Because of the site's close proximity to a main thoroughfare, Jones Lang LaSalle also assumed first floor retail in the redevelopment scenario.

Renovation Scenario

In order to determine the feasibility of renovating the current improvement on the Lee Square site, Jones Lang LaSalle developed a scenario in which the current units are renovated into comparable Class A units. For the purpose of this analysis, it was assumed that the existing utilities on the site have sufficient capacity to accommodate

the renovated units and that there would be no additional development to supplement the existing improvements.

Jones Lang LaSalle assumed that 12.5% of the existing units would be deemed “affordable” and the remainder would be market units. Because the units are being renovated, Jones Lang LaSalle assumed that the rental rates for the market units would be slightly lower than those of the newer Class A units in the area. In order to reflect this lower rental rate, Jones Lang LaSalle assumed a 10% discount from the rental rates of comparable Class A structures in the area.

Without actually walking through the existing structure it would be difficult to determine the exact extent of renovation required in order to bring the units up to a comparable Class A standard. For the purpose of this analysis, Jones Lang LaSalle assumed that the current units were kept in fair condition. After consulting internal resources with residential development and renovation experience, our team determined that it would cost, on average, approximately \$30,000 per unit to renovate a lower class unit in fair condition into a Class A unit.

For the renovation scenario, Jones Lang LaSalle assumed that the current landlord would renovate the improvement over an eighteen month period, after the renovation period the landlord would be able to charge a premium for the market rate units. In order for the renovation scenario to be justifiable, the cost of renovation will need to be more than offset by the increase in rent for the market rate residential rental units. The current rental rates for the Lee Square apartments can be found in the table below:

Current Rental Rates for Lee Square

Type	Unit	Amount
One-bedroom/One-bath	<i>\$/Square Foot/Year</i>	\$16.87
Two-bedroom/One-bath	<i>\$/Square Foot/Year</i>	\$16.42
Two-bedroom/Two-bath	<i>\$/Square Foot/Year</i>	\$16.08
Three-bedroom/Two-bath	<i>\$/Square Foot/Year</i>	\$17.14

Currently, there are a total of 115 units in Lee Square, with an assumed renovation cost of \$30,000 per unit the total renovation costs for Lee Square would be approximately \$3.45M. Jones Lang LaSalle assumed that 12.5% of the renovated units would be deemed “affordable,” with the rest being market rate units. This results in 14 affordable units and 101 market rate units.

Jones Lang LaSalle assumed that post-renovation, the landlord would be able to charge premium rents for the market rate units. The affordable rental rates were pulled from a Housing and Urban Developments (HUD) FY 2007 report on fair market rents for the Northern Virginia area that includes Falls Church. The following table illustrates the average rental rates for market and affordable units post-renovation:

Average Post-Renovation Rental Rates for Lee Square

Type	Unit	Amount
Affordable Units	<i>\$/Square Foot/Year</i>	\$16.00 (\$1,240/month)
Market Rate Units	<i>\$/Square Foot/Year</i>	\$24.00 (\$1,860/month)

In order for the renovation scenario to be feasible, the present value of the increase in rental revenues will have to be greater than the present value of the renovation costs. The table below illustrates the key factors used to determine the financial feasibility of the renovation scenario:

Excess Revenue Generated for Lee Square

Criteria	Unit	Amount
Current Rental Revenue	<i>\$/Square Foot/Year</i>	\$16.73 (\$1,297/month)
Post-Renovation Rental Revenue	<i>\$/Square Foot/Year</i>	\$23.00 (\$1,783/month)
Increase (decrease) in Rental Revenue	<i>\$/Square Foot/Year</i>	\$6.27 (\$486/month)
Renovation Costs	<i>\$/Unit</i>	\$30,000
Total Renovation Costs	<i>\$</i>	\$3,450,000
Total Increase in Rental Revenue*	<i>\$/Year</i>	\$670,260

*Based on total rentable square footage of 106,900 square feet for the residential space

Assuming a ten year post-renovation cash flow period and a 7.00% discount rate, the renovation would be cash flow positive, and thus financially feasible.

New Construction Scenario

For the new construction scenario, Jones Lang LaSalle utilized the zoning ordinances of the City of Falls Church in order to determine how much space could be built on the Lee Square site. Jones Lang LaSalle assumed a maximum lot coverage ration of 25% and maximum building heights of 75 feet in order to derive maximum square footage. Our team assumed that 12.5% of the residential rental component would be deemed “affordable.”

The redevelopment criteria for the Lee Square site can be found in the table below:

Redevelopment Scope for Lee Square

Criteria	Unit	Amount
Residential Rental	<i>Gross Square Feet</i>	356,000
	<i>Rentable Square Feet</i>	302,600
Retail	<i>Gross Square Feet</i>	60,000
Average Unit Size (Residential Rental)	<i>Rentable Square Feet</i>	900
Market Rate Component	<i>Units</i>	294
Affordable Component*	<i>Units</i>	42

* Assumes 12.5% of residential units are affordable

Our team again utilized internal resources to determine the potential development costs for this mixed-use development. We assumed that Class A residential rental units

were being developed with ground floor retail space. It is important to note that for retail development, tenant improvement (TI) costs, will vary with the type of retail tenant. Generally speaking, restaurants and bank branches are usually given the highest allotment of TI for their space TI for executed restaurant leases usually range anywhere from \$30.00 - \$80.00 per square foot, while bank space usually ranges between \$30.00 - \$55.00 per square foot. For the purpose of this analysis, our team assumed a per square foot TI cost of \$40. The total development costs by use can be found in the table below:

Redevelopment Costs for Lee Square

Criteria	\$/Square Foot*	Total Cost
Residential Rental	\$300	\$107,000,000
Retail	\$287	\$17,000,000

* Costs per square foot includes \$40 TI costs for retail, and \$75 per square costs for building out residential rental development

In order to determine the feasibility of redevelopment at the Lee Square site, our team assumed that a private developer would require a 15% leveraged reasonable return. Using operating assumptions derived from market comparables, we were able to determine what the land would need to sell for to make the development feasible. The operating assumptions and land value can be found in the table below:

Operating Assumptions for Redevelopment

Criteria	Unit	Amount
Market Residential Rental Rate	\$/Square Foot/Year	\$26.00 (\$1,950/month)
Affordable Residential Rental Rate	\$/Square Foot/Year	\$16.00 (\$1,200/month)
Retail Rental Rate	\$/Square Foot/Year	\$28.00
Land Value	\$/FAR Foot	(\$8.00)

In order for a private developer to achieve a 15% leveraged reasonable return, the land would have to be worth approximately (\$3M) or approximately (\$8.00) per FAR foot. This demonstrates that there would likely be a needed subsidy in order to make any redevelopment on the Lee Square site work. In this case, the subsidy needed would be at least \$3M, which would be required to bring the land value up to \$0. In reality, this subsidy would most likely need to be much larger, in order to fairly compensate the landowner for their land.

Recommendation and Limitations

Lee Square's parcel configuration limits the ability to create significant increased density if were to be demolished and redeveloped. With only limited frontage along West Broad Street and the majority of its acreage adjacent to low-density residential housing, Lee Square would be best suited for renovation.

The City should attempt to work with the owner of Lee Square to ensure that some of the units are retained as affordable dwelling units upon renovation. The City could

either subsidize the renovation through the employment of its \$2 million or arrange favorable public financing for the owner's renovation in exchange for the affordable units.

Broadfalls Apartments

The Broadfalls Apartment site is located at 809 W. Broad Street and is situated in the heart of Falls Church. The current building is 6 stories high, surrounded by approximately 150 parking spots, and has ground floor retail that consists of boutique shops. There is also a small swimming pool behind that main complex that is available to all residents. The site is approximately 2.87 acres in size, and the 6-story building is 101,837 square feet. Built in 1963, the Broadfalls Apartment building contains 113 units ranging in size from efficiency to two-bedrooms. A map illustrating the Broadfalls Apartment site as well as the improvements located on it can be found below.



Broadfalls Apartments is surrounded by new class A retail, office, condo, and apartment developments, and would be an ideal location for those seeking to be in the middle of all that Falls Church has to offer.

Existing Zoning

The Broadfalls Apartment site currently has split zoning, with half being zoned “R-M” which designates it as a multi-family residential district, and half being zoned “B-1” which designates it a limited business district.

According to the City’s zoning code, multi-family residential district typically allows for the development of multi-family dwellings, boarding or lodging houses, or mixed-use development. The multi-family district typically allows for dwellings that are 35 feet in height and whose footprint does not cover more than 25% of the lot area. Together with all vehicular parking areas, driveways, and loading areas, no more than 50% of the lot area shall be covered. However, there are conditional permitted uses for this site that includes multi-family dwellings up to 75 feet in height.

The limited business district typically allows the mixed-use development, along with museums, and public institutions. There is a maximum height limit of 85 feet in the limited business districts.

Surrounding Zoning

A map illustrating the zoning of the parcels surrounding the Broadfalls Apartment site can be found below:



- **R – 1A Zoning:** To the south of the Broadfalls Apartment site is a parcel of land designated as a “low density residential district.” R – 1A zoning permits the development of single-family dwellings as well as churches, parochial schools, public parks, and community centers. There is a maximum height of 35-feet for the dwelling units, and the dwelling units can not cover more than 25% of the gross site area.
- **B – 1 Zoning:** To the north of the Broadfalls Apartment site is a parcel of land designated as a “limited business district.” B – 1 zoning permits the development of public institutions, business offices, hotels/motels, museums, retail (restaurants), and other mixed-use redevelopment. There is a maximum height limit of 85-feet for this district.

Ownership

The building is currently owned by Asher Associates based out of Littleton, CO. It was originally built in 1963 and last sold in 1985 for \$5,050,000. Both the land and building were assessed in 2006 by the City of Falls Church based upon the current operating income of the asset. The land is currently valued at \$4 M while the building is currently valued at \$5.85 M, yielding a \$9.85 M total value of the asset.

SWOT Analysis

Strengths

- **Location:** Being on Broad street has many advantages; namely, its convenience to other amenities and accessibility. There are currently four (5) major retail and multi-family developments that are planned or under construction within one (1) mile of location. These developments house tenants such as Cosi, Blockbuster, and Panera Bread Company.

Weaknesses

- *Surrounding Uses:* Other than the frontage on West Broad Street, the adjacent low density residential uses may conflict with any proposed higher density redevelopment.

Opportunities

- *Zoning:* Currently, out of the four properties being analyzed, only Broadfalls Apartments is currently zoned as a *Limited Business*. As a result of its unique zoning, Broadfalls Apartments has the by-right potential to build retail on the ground floor.
- *Surrounding Uses:* Adjacent office tower (803 W. Broad Street) creates the potential for a larger scale, mixed use (office, retail, residential, public parking) project.

Threats

- *Competition:* The site is located within one mile of six new developments that are either planned, under construction, or have been recently completed (City Center, The Spectrum, The Read Building, Pearson Square, The Byron, and The Broadway).

Redevelopment Options

In order to assess the potential subsidies needed in order to retain the “at-risk” affordable housing within the City of Falls Church, Jones Lang LaSalle considered three options for the Broadfalls Apartment site:

1. Renovation of the existing structure
2. Demolishing the existing structure and redeveloping the site to the maximum allowable density (assuming 75-foot height limits), including ground-floor retail. For the Broadfalls Apartment site, Jones Lang LaSalle elected to run two separate iterations, one assuming 12.5% of the residential units will be affordable, and a second assuming all market rate units.
3. Demolishing the existing structure and redeveloping the site utilizing a concrete structure for ground floor retail, with four-stories of stick-built residential rental on top. Instead of one concrete superstructure, the residential rental development would be developed separately on top of the concrete plate used for the ground floor retail. Stick-built structures are generally cheaper to develop than concrete superstructures, but they can only be approximately four-stories high.

Renovation Scenario

In order to determine the feasibility of renovating the current improvement on the Broadfalls Apartment site, Jones Lang LaSalle developed a scenario in which the current units are renovated into comparable Class A units. For the purpose of this analysis, it was assumed that the existing utilities on the site have sufficient capacity to accommodate the renovated units and that there would be no additional development to supplement the existing improvements.

Jones Lang LaSalle assumed that 12.5% of the existing units would be deemed “affordable” and the remainder would be market units. Because the units are being renovated, Jones Lang LaSalle assumed that the rental rates for the market units would be slightly lower than those of the newer Class A units in the area. In order to reflect this lower rental rate, Jones Lang LaSalle assumed a 10% discount from the rental rates of comparable Class A structures in the area.

Without actually walking through the existing structure it would be difficult to determine the exact extent of renovation required in order to bring the units up to a comparable Class A standard. For the purpose of this analysis, Jones Lang LaSalle assumed that the current units were kept in fair condition. After consulting internal resources with residential development and renovation experience, our team determined that it would cost, on average, approximately \$30,000 per unit to renovate a lower class unit in fair condition into a Class A unit.

For the renovation scenario, Jones Lang LaSalle assumed that the current landlord would renovate the improvement over an eighteen month period, after the renovation period the landlord would be able to charge a premium for the market rate units. In order for the renovation scenario to be justifiable, the cost of renovation will need to be more than offset by the increase in rent for the market rate residential rental units. The current rental rates for the Broadfalls Apartments can be found in the table below:

Current Rental Rates for Broadfalls Apartments

Type	Unit	Amount
Efficiency	<i>\$/Square Foot/Year</i>	\$19.95
One-bedroom/One-bath	<i>\$/Square Foot/Year</i>	\$17.00
One-bedroom/One and one-half bath	<i>\$/Square Foot/Year</i>	\$17.00
Two-bedroom	<i>\$/Square Foot/Year</i>	\$15.40

Currently, there are a total of 113 units in the Broadfalls Apartment building, with an assumed renovation cost of \$30,000 per unit the total renovation costs for Broadfalls Apartments would be approximately \$3.4M. The renovation scenario only assumes the renovation of the residential units, not the ground floor retail space. Jones Lang LaSalle assumed that 12.5% of the renovated units would be deemed “affordable,” with the rest being market rate units. This results in 14 affordable units and 99 market rate units.

Jones Lang LaSalle assumed that post-renovation, the landlord would be able to charge premium rents for the market rate units. The affordable rental rates were pulled from a Housing and Urban Developments (HUD) FY 2007 report on fair market rents for the Northern Virginia area that includes Falls Church. The following table illustrates the average rental rates for market and affordable units post-renovation:

Average Post-Renovation Rental Rates for Broadfalls Apartments

Type	Unit	Amount
Affordable Units	<i>\$/Square Foot/Year</i>	\$16.00 (\$972/month)

Market Rate Units	<i>\$/Square Foot/Year</i>	\$24.00 (\$1,458/month)
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In order for the renovation scenario to be feasible, the present value of the increase in rental revenues will have to be greater than the present value of the renovation costs. The table below illustrates the key factors used to determine the financial feasibility of the renovation scenario:

Excess Revenue Generated for Broadfalls Apartments

Criteria	Unit	Amount
Current Rental Revenue	<i>\$/Square Foot/Year</i>	\$17.77 (\$1,333/month)
Post-Renovation Rental Revenue	<i>\$/Square Foot/Year</i>	\$23.00 (\$1,725/month)
Increase (decrease) in Rental Revenue	<i>\$/Square Foot/Year</i>	\$5.23 (\$393/month)
Renovation Costs	<i>\$/Unit</i>	\$30,000
Total Renovation Costs	<i>\$</i>	\$3,390,000
Total Increase in Rental Revenue*	<i>\$/Year</i>	\$430,870

*Based on total rentable square footage of 82,385 square feet for the residential space

Assuming a ten-year post-renovation cash flow period and a 7.00% discount rate, the renovation costs would still be greater than the difference in rental rate revenue. The incremental value created/(lost) through the renovation would be (\$558,587).

New Construction Scenario

For the new construction scenario, Jones Lang LaSalle utilized the zoning ordinances of the City of Falls Church in order to determine how much space could be built on the Broadfalls Apartment site. Jones Lang LaSalle assumed a maximum lot coverage ratio of 25% and building heights of 75-feet in order to derive maximum square footage.

The redevelopment criteria for the Broadfalls Apartment site can be found in the table below:

Redevelopment Scope for Broadfalls Apartments

Criteria	Unit	Amount
Residential Rental	<i>Gross Square Feet</i>	187,500
	<i>Rentable Square Feet</i>	159,375
Retail	<i>Gross Square Feet</i>	31,250
Average Unit Size (Residential Rental)	<i>Rentable Square Feet</i>	900
Market Rate Component	<i>Units</i>	155
Affordable Component*	<i>Units</i>	22

* Assumes 12.5% of residential units are affordable

Our team again utilized internal resources to determine the potential development costs for this mixed-use development. We assumed that Class A residential rental units were being developed with ground floor retail space. It is important to note that for retail development, tenant improvement (TI) costs, will vary with the type of retail

tenant. Generally speaking, restaurants and bank branches are usually given the highest allotment of TI for their space TI for executed restaurant leases usually range anywhere from \$30.00 - \$80.00 per square foot, while bank space usually ranges between \$30.00 - \$55.00 per square foot. For the purpose of this analysis, our team assumed a per square foot TI cost of \$40.00. The total development costs by use can be found in the table below:

Redevelopment Costs for Broadfalls Apartment

Criteria	\$/Square Foot*	Total Cost
Residential Rental	\$304	\$57,000,000
Retail	\$312	\$9,700,000

* Costs per square foot includes \$40 TI costs for retail, and \$75 per square costs for building out residential rental development

In order to determine the feasibility of redevelopment at the Broadfalls Apartment site, our team assumed that a private developer would require a 15% leveraged reasonable return. Using operating assumptions derived from market comparables, we were able to determine what the land would need to sell for to make the development feasible. The operating assumptions and land value can be found in the table below:

Operating Assumptions for Redevelopment

Criteria	Unit	Amount
Market Residential Rental Rate	\$/Square Foot/Year	\$26.00 (\$1,950/month)
Affordable Residential Rental Rate	\$/Square Foot/Year	\$16.00 (\$1,200/month)
Retail Rental Rate	\$/Square Foot/Year	\$28.00
Land Value	\$/FAR Foot	(\$55.00)

In order for a private developer to achieve a 15% leveraged reasonable return, the land would have to be worth approximately (\$12M) or approximately (\$55.00) per FAR foot. This demonstrates that there would likely be a needed subsidy in order to make any redevelopment on the Broadfalls Apartment site feasible.

If the affordable component were removed from the scenario and all the residential units were market rate, the land value would increase to (\$9M) or approximately (\$41.00) per FAR foot. This change illustrates the effect that the affordable component has on any potential residential redevelopment.

Recommendation and Limitations

Broadfalls Apartments, by nature of its prime West Broad street frontage, proximity to retail amenities and adjacent commercial uses possesses a great deal of potential for creative redevelopment. However, at this time, Falls Church involvement in any renovation or redevelopment is negated due to the owner's lack of interest. Jones Lang LaSalle has confirmed that the current owners of Broadfalls have no interest in pursuing any redevelopment at this time. However, in order to best insure the City's influence in any future renovation or redevelopment, the City should work towards

revising the City's zoning ordinance such that any future renovation or redevelopment at the site would fall under a zoning overlay that would impose desired usage/redevelopment restrictions.

Public / Private Joint Venture Strategies

Objectives

The City of Falls Church sought to gain an understanding of the application of Public-Private joint ventures with respect to the redevelopment of the four at-risk properties, with the objective of creating affordable dwelling units on those sites. The City also sought an evaluation of the use of the Public Private Education Facilities and Infrastructure Act of 2002 (PPEA) which allow private entities to “acquire, design, construct, improve, renovate, expand, equip, maintain or operate qualifying projects” as a redevelopment tool in the creation of affordable housing in Falls Church. Finally, the City requested a list of potential firms that have the experience, capital, and expertise in the formation and operation of public-private partnerships that create affordable housing.

Findings

The City of Falls Church does not have a housing authority, cannot acquire and own affordable dwelling units, and cannot own real estate. As a result, the City must rely upon outside entities for the creation and long-term ownership of ADUs. Entities that may serve as potential joint-venture partners for the City fall into three (3) general categories as described in the table below.

Potential Partners	Examples
Existing owners of multi-family housing in the City of Falls Church	- Apartment Investment and Management Company (AIMCO)
Non-profit affordable housing development and management entities	- AHC Inc. - Arlington Partnership for Affordable Housing - Falls Church Housing Corporation - Wesley Housing Corporation
For-profit commercial / residential development and management entities	- Akridge - AvalonBay - Bozzuto - Clark Ventures - EYA - Silverwood Associates - Waterford Development - The Young Group

The consulting team conducted research and interviews with entities falling within each of these categories to gain greater perspective on the role the City might play as a partner to each. For each type of potential partner, the City could pursue specific partnering strategies.

Existing multi-family property owners

As described in the previous section of this summary, with existing owners of multi-family housing the City could engage the owner during the to create/preserve ADUs during the course of redevelopment. In exchange for providing ADUs, the City could facilitate the redevelopment process by granting expedited project reviews, relaxing parking or setback requirements, waiving permit or impact fees, or granting additional density. All these approaches could be implemented in advance of providing an outright cash investment into such a project.

The greatest limitation in working with existing owners is their interest in pursuing any type of redevelopment of their properties. As discussed in the previous section of this report, owners may be content with the current cash flow being generated by their real estate and not inclined to disrupt such cash flow or take on a complex development effort.

Non-profit affordable housing developers

Utilization of non-profit affordable housing development entities can provide a means of ensuring that ADUs remain affordable for the long-term. Unlike typical privately developed ADUs their does not exist an expiration date when such units revert to being market rate units.

Given the City's existing relationship with the Falls Church Housing Corporation, the organization could be utilized as a vehicle for acquisition and long-term ownership of rental ADUs. This could occur through the acquisition of existing rental units, or as a joint venture partner in the development of new units. A joint venture with a larger developer would represent a scenario that would provide the Corporation with greater access to capital and development expertise, while providing a mechanism for long-term ownership of any ADUs created.

A similar approach could be taken with other non-profit organizations seeking to develop affordable housing within the City. However, given that the City does not have an existing contractual agreement with such organizations, any direct investment of City funds would need to come through a procurement process (i.e. PPEA).

For-profit commercial / residential developers

For-profit developers provide the greatest financial capacity and expertise to deliver future ADUs in the City of Falls Church. The City might seek to partner with such developers in the creation of shared public facilities (i.e. parking, public space, community facilities). Such facilities would qualify under the requirements of PPEA, as discussed below. Rather than direct cash investments in such projects, however, the

City could realize these community benefits as well as ADUs through proposed enhancements to the ADU ordinance.

Potential Joint Venture Partners

The City has requested recommendations of at least three joint venture partners with experience in the affordable housing marketplace. The following entities have such experience:

Partner	Project Highlights
For-Profit Organizations	
Akridge	The Spectrum (with Waterford Development) (183 market rate units, 8 ADUs)
AvalonBay	Arna Valley View, Arlington, VA (101 units at 60% AMI)
Bozzuto Development	Wheaton Metro Joint Development, Wheaton, MD (96 market rate units, 40 ADUs)
Clark Ventures / Clark Realty	Columbia Heights Village (406 units, all ADUs)
EYA	Chatham Square, Alexandria, VA (100 market rate units, 52 ADUs)
Silverwood Associates	Sierra Condominiums, Arlington, VA (86 market rate units, 10 ADUs)
Trammell Crow	Numerous projects nationwide; Canal Place Apartments, Houston, TX (50 market rate units, 150 ADUs)
Waterford Development	Broadway and Spectrum, Falls Church, VA (271 market rate units, 12 ADUs)
Not-for-Profit Organizations	
AHC Inc	The Shelton / Fairview Manor, Shirlington, VA (94 ADUs)
APAH	Courthouse Crossing, Alexandria, VA (112 Units)
Falls Church Housing Corporation	Winter Hill, Falls Church, VA
Wesley Housing	PacView, Alexandria, VA (159 ADUs)

Utilizing PPEA as a Public/Private Mechanism

The PPEA procurement approach represents a viable option for Falls Church to encourage the submission of unsolicited proposals by the development community. The tool can provide a means for encouraging creative approaches from developers seeking to develop affordable housing in the City.

PPEA Program Aspects and Requirements

Toward the PPEA program's goals, the statute grants a public entity (i.e. county or local municipality) the authority to create public-private partnerships for the development of a variety of "qualifying projects" for public use if the public entity deems the project necessary and if private involvement can expedite delivery of the project or reduce costs. Proposals can be either solicited by the public entity or offered by private firms as unsolicited proposals. Through the PPEA, these private-public partnerships can access public funds that may not ordinarily be available.

These partnerships and unique funding options are designed to help expedite development projects while reducing costs.

Qualifying Projects

“Qualifying projects” are broadly defined under the PPEA and include public buildings and facilities of all types. These include but are not limited to: education facilities of all levels, including stadiums or fields used primarily for school events; buildings developed for public purposes that are developed or operated by public entities; improvements, including equipment, that enhance the security or public safety of buildings to be used primarily by public entities; utilities, telecommunications and other communication infrastructure; recreational facilities; technology infrastructure such as automated data processing, word processing, management information systems, and related information or goods or services; any improvement necessary or desirable to any locally- or state-owned real estate¹. Local municipalities adopt approval criteria and procedures based on the PPEA guidelines. Proposals include plans for financing and requests for public funds, which, if the project qualifies and receives approval, are disbursed in accordance with a comprehensive agreement between the public and private entities to help fund the proposed project. Projects that do not qualify are those contracts that only utilize professional services, such as architecture or design, or projects that merely equip a public building with tangible products.

To date an affordable housing PPEA project has not yet been completed. However, in the Fall of 2006, Fairfax County received and accepted for consideration an unsolicited proposal under the provisions of the Public Private — Education Facilities and Infrastructure Act of 2002 (PPEA) to construct workforce housing and adjacent structure commuter parking facility on county owned property in the Hunter Mill District. The project is proposed for construction on parcels at the intersection of Reston Parkway and Lawyers Road in Reston, Virginia. Due to a proposed change in land use, the project must go through the full land use process involving the community, the Planning Commission and the Board of Supervisors. Under the PPEA, other interested firms or other private entities were invited to submit competing unsolicited conceptual phase proposals for this project for simultaneous considerations, however no additional proposals were received. The County will now select an advisory committee that will conduct an in-depth analysis of the proposal and bring forth a recommendation to the board of Supervisors (BOS) in early 2007.

Example PPEA Projects

One of the best examples of PPEA application is the Mary Ellen Henderson Middle School. The City of Falls Church was the first jurisdiction to utilize this mechanism in a two-step procurement that took place in the fall of 2002. Through a partnership with Clark Advisors, the City realized a successful new school project that opened its doors in Summer 2005.

¹ Public-Private Education Facilities and Infrastructure Act of 2002 Model of Guidelines

Jones Lang LaSalle

Report for the Housing and Human Services Division,
City of Falls Church

In accordance with the “Capitol Square Preservation Act of 2003”, the Virginia State Assembly authorized financing by the Virginia Public Building Authority (VPBA) to renovate and improve a number of government buildings on the Capitol Square in Richmond, Virginia. Projects authorized under the act included: renovating the Capitol Building itself; constructing a new northern entrance for the Capitol Building; renovating the Old State Library; renovating and expanding the Old Finances Building; and Renovating the Washington Building. Real estate services firm Trammell Crow Companies, now owned by CB Richard Ellis, was selected as one of the primary firms to undertake the renovation and development of these buildings. By forming a public-private partnership the Commonwealth of Virginia estimated that costs would be roughly 2.5 million dollars below what was initially authorized for the renovation projects. This project qualified under the PPEA guidelines because it was a direct improvement to property owned by the state of Virginia.

Another example where PPEA funding was utilized was in 2003 when Stafford County deemed it necessary to build three new schools on county owned land. After issuing an RFP and reviewing proposals advanced by several firms, Haskell/Hess was selected. The comprehensive agreement calls for the County to finance using Virginia Public School Authority (VPSA) bonds and the delivery of the first school was scheduled for 2004. Two of the schools in the project, an Elementary and High School, cost roughly \$67 million and account for 425,000 SF of space.

Applicable Uses of PPEA within City of Falls Church Context

The PPEA was primarily designed as a procurement tool to create partnerships between public entities and private developers where the proposed project in some way benefits the general public. As such, the development of affordable housing generally could qualify for PPEA designation provided that the development serves a public interest as determined by a review committee of the public entity. The preservation and development of additional affordable housing within Falls Church which would allow lower income and workforce residents to stay within city limits can arguably be seen as providing a necessary public good.

In order to ease qualification under the PPEA, housing development projects could incorporate public safety centers or public parking. Growth segments within PPEA-funded projects involve water and wastewater, utilities, and performance contracting and energy conservation. An affordable housing development that was energy efficient, provided both public and private parking, and perhaps included a municipal park or sports field could qualify within accepted PPEA guidelines.

A distinct advantage of PPEA projects is that the proposing developer can suggest unique financing methods in their proposal. The extent to which public funds are provided, including the issuance of public debt, are settled upon in the Comprehensive Agreement between the public entity and the private firm who has been selected following review of their proposal. Because of the unique financing available through the PPEA, projects can proceed even when public budgets are tight. Private firms also have the incentive to participate in PPEA projects because they can share in the revenues of completed projects and can share in profits from the construction and management of these properties.

However, proposal review fees assessed by the public entity pose an obstacle to many developers. This fee can exceed \$50,000 and can prevent smaller firms from submitting proposals. Projects that generally have been approved through the PPEA process are generally large-scale development projects. The PPEA procurement process may not be appropriate for smaller scale project proposals that would only provide a few affordable housing units. Smaller scale proposals, in addition to being burdened by high proposal fees, might be met with stricter scrutiny by a review board than a project proposal that supplies a broader public good.

Overall, the PPEA procurement process would be beneficial within the context of Falls Church. It creates a mechanism for developers to not only respond to solicited request for proposals issued by public entities but also a method for private developers to present unsolicited proposals for developments that serve a public good and enable them to propose creative financing utilizing public funds. As indicated through the Reston example, a project could yield multiple benefits to the City through affordable housing as well as municipal parking.

Leveraging \$2 Million City Funding and Other Financing Mechanisms

Objectives

The City of Falls Church has approved \$2 million in CIP funding from general revenues to facilitate the creation and/or preservation of affordable housing. As part of this study, the City is seeking to gain an understanding of the most optimal approaches for deploying these funds to create or preserve affordable housing. The City may leverage the \$2 million in public funding to maintain ADUs on the identified ‘at-risk’ sites and/or create incentive for the provision of ADUs in other projects. While application of the funds to the ‘at risk’ sites might provide for the most expedient means of preservation of ADUs in the City of Falls Church, exploration of other opportunities could allow for both preservation of existing ADUs as well as expansion of the current supply.

From a preservation standpoint, the Merrill House property is currently the most at-risk for loss of ADUs given the current owners plans to renovate the property and increase rents to market levels for newer properties. The City could utilize its funds to offset the impact of the owner maintaining a quantity of units as ADU rentals in perpetuity. Based on the consulting team’s analysis of the lost value between a market rate rental and ADU rental rate, the City would need to provide a minimum of \$80,000 per ADU unit. As such, the \$2 million funding would result in the preservation of 25 units. The City may be able to achieve additional ADUs in this project through relaxation of parking or setback requirements which otherwise might pose a significant cost for the owner in the course of redevelopment.

Applications of City Funding to the At Risk Sites

The City of Falls Church could utilize the \$2 million in available funds to either (a) subsidize a renovation or new construction of the four ‘at risk’ properties or (b) apply the funds to preserve ADUs at alternative properties. Within the context of the four at-risk properties, redevelopment scenarios would fall into three categories:

1. **Renovation by right:** the current owner of a given property would renovate said property, converting currently affordable units into market rate units.
2. **Renovation with subsidy:** the current owner of a given property would receive a subsidy from the City of Falls Church to renovate said property, and in turn, would maintain some of the renovated units as ADUs.
3. **New construction with subsidy:** the current owner of a given property would receive a subsidy from the City of Falls Church to demolish and

rebuild said property, and in turn, would maintain some of the new units as ADUs.

For the purposes of this analysis, we omit the first scenario, renovation by right, as it does not achieve the objective of preservation of ADUs.

In the case of Renovation with subsidy, the \$2 million of City funds would be applied toward the lost market value that the current owner would have otherwise received had the owner pursued Renovation by right, in which case all of the housing units would be converted to Market Rate. Determination of the forgone value per unit, resultant from the Renovation with subsidy alternative is further detailed in the table below.

Renovation with subsidy	Annual Rent (\$ / Sq Ft)	Unit Size (Sq Ft)	Annual Rent	Monthly Rent
Market Rate Unit	\$24	1,000	\$24,000	\$2,000
Affordable Dwelling Unit	\$16	1,000	\$16,000	\$1,333
Rent Forfeited for Each ADU:			(\$8,000)	(\$667)
Net Operating Income lost for Each ADU (assuming 50% Op Ex):			(\$4,000)	(\$333)
Capitalized value of lost NOI (assuming 5% cap rate):			(\$80,000)	
Required per-unit subsidy to compensate developer for lost value:			(\$80,000)	

Given current market rental rates of \$24.00 (per square foot per year), affordable housing rental rates of \$16.00 (per square foot per year), and an average unit size of 1,000 square feet, in order to make the owner indifferent between the renovation by right and renovation with subsidy alternatives, the City of Falls Church would have to compensate the owner \$80,000 for each renovated unit to be maintained as an ADU. Application of the entire \$2 million in City funds toward the Renovation with subsidy alternative would preserve approximately 25 ADUs.

Applications of City Funding to Other Projects

As an alternative to allocating City funding to the four ‘at-risk’ sites, the supply of ADUs within the City of Falls Church may be preserved by providing other forms of subsidy in addition to the public funds, to other development projects. To the extent that it is consistent with the Comprehensive Plan, the City of Falls Church may negotiate with other owners and/or real estate developers, providing consideration to an existing project in the form of greater Floor to Area Ratios (FAR) and other such means of creating opportunities for expanding the maximum buildable area, by way of Special Exception Approval, on the condition that additional ADUs are provided in the project.

Additionally, the City of Falls Church may solicit an opportunity to entities interested in development of subsidized ADUs. In this case, the City of Falls Church would offer development entities direct subsidy in the form of a cash contribution to develop a project containing only ADUs from the ground up. Due to the economies of scale realized in many development projects developers are often precluded from offering significant degrees of variation in interior fixtures and finishes between ADUs and Market Rate units. As such, it is often more economical for a developer to construct ADUs with the same level/quality of finishes as Market Rate units thus creating a need for greater subsidy to offset the cost of including ADUs within a larger Market Rate development. Development of separate buildings for ADUs allows for greater feasibility in the context of project economics.

Alternatively, the City of Falls Church may act as agent or investor, applying public funding to the acquisition of existing homes and/or multi-unit buildings under the Falls Church Housing Corporation, subject to the provision that said housing units are operated as ADUs.